



SBWMA FINAL REPORT REVIEWING THE 2015 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

September 18, 2014

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- APPENDIX B** – SBWMA Comments and Questions on Recology 2015 Compensation Application issued July 8, 2014 (with Recology’s Responses to Part II Comments and Questions)
- APPENDIX C** – Member Agency Comments and Questions on Recology 2015 Compensation Application (with Recology’s Responses)
- APPENDIX D** – Member Agency Variance Analysis of Total Collection Cost and Rate Impact

SECTION 1 EXECUTIVE SUMMARY

1.A Summary

The South Bayside Waste Management Authority (SBWMA/RethinkWaste) is required to review the Recology San Mateo County (Recology) 2015 Compensation Application (Application) for completeness, accuracy and consistency as prescribed in the Franchise Agreements between the SBWMA Member Agencies and Recology. The Application is to document the results of Recology following the prescribed compensation adjustment process detailed in Article 11, and Attachments K and N of the Member Agency Franchise Agreements. Specifically, this process entails including the index based cost adjustments, allocation of cost to Member Agencies and prior year revenue reconciliation balances.

This Final Report provides the results of SBWMA's review of Recology's 2015 Application and the critical analysis by the SBWMA of all components that make-up the total revenue requirement for Member Agencies to set solid waste rates, including other pass through costs (i.e., Member Agency fees, disposal and processing costs, and any Member Agency specific contract changes) and prior year surplus/shortfalls owed to/from Recology.

Also included is a variance summary to facilitate the understanding by the Member Agencies of the year over year changes in the Total Revenue Requirement including compensation paid to Recology and pass-through costs (**Appendix D**). In addition, the SBWMA provides the total rate impact for each Member Agency (see **Table 8 on pages 13 and 14**) and recommended rate adjustment for 2015, which consolidates all the revenue and cost components associated with the solid waste rate setting process by Member Agency.

1.B Compensation Application Process and Issuance of SBWMA Report

The Recology Compensation Application was submitted to the SBWMA on June 13, 2014 and a revised version was submitted on July 30, 2014 (**Appendix A** provides a redline comparison).

On July 8, 2014 the SBWMA submitted comments to Recology on their Application and shared these with our Member Agencies (**Appendix B**). Recology addressed the SBWMA's comments to Part I and these are highlighted in redline in **Appendix A**. In addition, Recology addressed the SBWMA's comments to Part II and these are highlighted in yellow in **Appendix B**. Two other Member Agencies also submitted comments to Recology on July 8 (i.e., Foster City and the County of San Mateo) and these comments and Recology's responses are provided in **Appendix C**. The SBWMA provided all Member Agencies their detailed revenue, disposal and processing cost projections on July 21, 2014. Any changes to these projections submitted to the SBWMA by Member Agencies are captured in the Final Report.

A redline of Recology's July 30 version of the Application (**Appendix A**) is provided to highlight the revisions the company made to its June 13 version. In addition, this redlined version is provided to facilitate an understanding of how Recology addressed the Comments/Questions put forth by the SBWMA and Member Agencies on July 8 (**Appendix B and C**). Please note that this redline is limited to text and does not duplicate the tables that were modified from the June 13 version; thus, only the final tables used in the July 30 version are provided.

This Final Report underwent non-substantive revisions per the Board's review and comments submitted to the SBWMA. Since the September 11, 2014 Special Board meeting, the SBWMA received revised tonnage information for the first quarter of 2014 from Recology which impacted the disposal expense of

ten Member Agencies for 2014 and 2015. The impact is primarily a decrease in Belmont and increases in the cities of San Carlos and San Mateo. These changes have been incorporated into the Final Report.

Table 1 below shows the complete schedule to review and comment on Recology’s Compensation Application. The SBWMA Draft and Final Reports provide all the necessary information for Member Agencies to adjust solid waste rates for 2015, if necessary.

Table 1 – 2014 Schedule

Due Date	Milestone
June 13, 2014	Recology 2015 Compensation Application Submitted to Member Agencies and SBWMA
July 8, 2014	Member Agencies and SBWMA Comments Due to Recology
July 30, 2014	Revised Recology 2015 Compensation Application Submitted to Member Agencies and SBWMA
August 8, 2014	SBWMA Draft Report Issued to Member Agencies
August 29, 2014	Member Agencies Written Comments Due to SBWMA
September 11, 2014	SBWMA Special Board Meeting: Staff Update and Discussion
September 18, 2014	SBWMA Final Report Issued to Member Agencies/Board
September 25, 2014	SBWMA Board Meeting: Consideration of Final Report

1.C Summary of Notable Items in the 2015 Recology Compensation Application

Notable items included in the 2015 Recology Compensation Application include:

- 2013 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application).
- Performance Incentive/Disincentive payments and offsetting additional Liquidated Damage (Table F in Recology Application).
- Prior year recurring miscellaneous items.

1.D Recology Cost Allocation Process by Member Agency

The process to allocate Recology’s cost equitably across all Member Agencies is prescribed in Article 11 and Attachment K of the Franchise Agreements. The collection cost per Member Agency varies based on topography, housing density, traffic patterns, customer subscription levels, etc., even though the services provided are uniform across the Member Agencies. For these reasons, the cost to provide service is allocated to the individual Member Agencies based on operational metrics. Specifically, Recology’s costs are broken into nine cost categories and each is allocated based on four operational statistics specific to each Member Agency. These operational statistics are updated annually in April/May and include:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

The cost allocation process was discussed in detail at the September 12, 2013 and January 23, 2014 Board meetings.

Per section 7.12 of the Franchise Agreements, Recology conducted its Annual Route Assessment over a four week period in April/May 2014. The statistics compiled from this Route Assessment are used to allocate costs for 2015. The cost allocation process is similar to the practice used under the Allied Waste/Republic Services compensation methodology. Year to year variances are the result of several factors addressed by Recology in section 3.2 of its Application. Recology is currently reviewing options for how to “automate” the compilation of route assessment statistics so a larger pool of data may be used in future annual route assessments.

1.E Recommendation

Based on the net results of the cost adjustments calculated in the 2015 Recology Compensation Application, SBWMA is recommending that the Board approve an adjustment to Recology's 2015 compensation as delineated in the **Table 2** below. **Table 2** summarizes the adjusted 2015 costs and changes from 2014. The total change in Recology’s compensation for 2015 is a \$137,473 (0.2%) increase over 2014.

Table 2 – Summary of Adjusted 2014 Costs to 2015 Costs

RECOLOGY COMPENSATION SUMMARY	Costs - 2014	Costs - 2015	% of Total Cost	\$ Change	% Change
Total Annual Cost of Operations	49,998,504	50,595,201	87.7%	596,697	1.2%
Profit	5,248,462	5,311,098	9.2%	62,637	1.2%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	55,246,966	55,906,300	96.9%	659,334	1.2%
Contractor Pass-Through Costs					
Interest Expense	2,224,726	1,935,353	3.4%	(289,373)	-13.0%
Interest Expense on Implementation Cost	73,498	63,894	0.1%	(9,604)	-13.1%
Contract Changes to Specific Agencies	(431,332)	(435,254)	-0.8%	(3,922)	0.9%
Total Contractor Pass-Through Costs	1,866,892	1,563,993	2.7%	(302,899)	-16.2%
BASE CONTRACTOR'S COMPENSATION	57,113,858	57,470,293	99.6%	356,435	0.6%
Other Adjustments					
Performance Incentives / Disincentives	472,171	253,210	0.4%	(218,961)	-46.4%
Total Other Adjustments	472,171	253,210	0.4%	(218,961)	-46.4%
TOTAL CONTRACTOR'S COMPENSATION	\$ 57,586,029	\$ 57,723,503	100.0%	\$ 137,473	0.2%

Note: Includes Member Agency specific contract changes for Hillsborough, Menlo Park and San Carlos.

SECTION 2 BACKGROUND

2.A Franchise Agreement Terms

Eleven of the twelve SBWMA Member Agency Agreements use the same methodology to calculate the compensation paid to Recology. One Member Agency (i.e., City of Belmont) uses a different compensation methodology; however, using this different methodology has no bearing on the costs (compensation) or services provided to the other eleven Member Agencies.

The compensation adjustment methodology is detailed in Article 11, Attachment K and Attachment N in the Member Agency Franchise Agreements. Article 11 describes the methodology and process by which the compensation adjustment process shall be implemented. Attachment K provides more detail on this process and how costs (compensation) will be allocated amongst the Member Agencies. Attachment N includes a series of forms (worksheets) that breakout Recology's compensation and data used in the cost allocation process.

Cost Adjustment Process

Attachment K, Table 1 of the Franchise Agreements prescribes a detailed process to adjust Recology's costs during the full ten-year term of the Franchise Agreements. A flowchart in Recology's Compensation Application (see table D on page 10) illustrates graphically the cost adjustment process that is conducted each year.

2.B Annual Revenue Reconciliation

For rate years 2012 through 2019 there is an annual revenue reconciliation process to determine the net revenue Recology retained versus the amount actually owed to the company. The calculation compares the approximately **\$100** million gross revenue billed, less contractor paid pass-through expenses for Member Agency fees and disposal expense at the Shoreway facility (owned by SBWMA/RethinkWaste), versus the approved contractor's compensation. This revenue reconciliation process results in a surplus or shortfall owed to/from Recology by Member Agency. This surplus or shortfall will be added to or subtracted from the Recology's compensation for the subsequent rate year (in this case for 2015).

The Recology Revenue Reconciliation Report was submitted to the SBWMA and Member Agencies on March 31, 2014. Staff reviewed this 2013 Revenue Reconciliation Report and contracted an independent firm (i.e., Hilton, Farnkopf and Hobson, LLC - HF&H), to thoroughly review it, which included validating the accuracy of the results by Member Agency. On June 26, 2014 the Board approved agenda item 5B which included the audit findings and results (i.e., final 2013 surplus/shortfall and interest) of the revenue reconciliation that will be applied to 2015 compensation.

2.C Review of Compensation Application by SBWMA for Accuracy and Completeness and Issuance of Final Report

The Franchise Agreements state that the SBWMA is responsible for annually conducting a review and analysis of Recology's Compensation Application. The SBWMA staff conducts a thorough review of the data, calculations, index adjustments, and the cost allocation process. This review is used to draft the analysis contained in this report including any changes and adjustments to Recology's compensation. Recology is obligated to promptly provide to the SBWMA any missing information, explanations and agreed changes upon request during the Compensation Application review process (i.e., June 13 – July 8). Recology submitted a revised Compensation Application on July 30 based on staff and Member Agency

comments. The questions and comments submitted to the company during the initial review period from June 13 – July 8 are provided as **Appendices B and C**.

SECTION 3 2015 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

3.A Description of Compensation Adjustments

The 2015 Recology Compensation Application is based on adjusting 2014 cost categories by applying the changes in several indices to arrive at the 2015 compensation by cost category. In the Compensation Application, the term “cost” really refers to “compensation.” Please note this does not mean Recology’s “true” cost as this is an index based compensation approach and not a “cost plus” approach. The SBWMA moved from a “cost plus” compensation model to a new “fixed price plus index adjustment” compensation methodology with the new Recology contract that started on January 1, 2011.

The Franchise Agreements with Recology also provide for additional compensation adjustments for special issues related to performance incentive/disincentive payments (and liquidated damages) and a negotiated cost adjustment for Hillsborough. The contract also entitled Recology to receive two cost adjustments in 2011 and 2013 to address service level changes to the number of residential customer accounts and commercial service levels.

Changes to Annual Adjustment to Wages and Benefits Per the Collective Bargaining Agreements (CBA). The 2015 Compensation Application is the second one whereby the CBA wages and benefits costs are adjusted based on a pre-determined CPI index. The Franchise Agreements prescribe that when the CBA’s in effect at the start of the contract were either amended or expired, the annual adjustment to wages would then be tied to a CPI index and not subject to the terms (i.e., increases) in the CBA. The three CBA’s expired in 2013, therefore the adjustment to CBA wages is now limited to a pre-determined Federal labor CPI index. In 2011, 2012 and 2013 of the Recology contract, and throughout the term of the previous Allied Waste/Republic Services contract(s), the wages and benefits increases specified in the CBA were used to adjust these cost categories.

Recology Annual Revenue Reconciliation Report for 2013. Recology submitted a Revenue Reconciliation Report to the SBWMA on March 31, 2014 which compares the approved compensation owed to Recology for 2013 with the actual net funds retained by Recology after paying for pass-through costs for disposal at Shoreway and Agency fees (e.g., Franchise Fees) paid to each Member Agency. The SBWMA reviews this Report and it is audited by an independent third party firm. The audit results are then provided to the Board for consideration and approval. Each Member Agency annually generates a surplus or shortfall which is added to or subtracted from the next year’s Revenue Requirement. The report was thoroughly reviewed by staff and an independent firm (i.e., HF&H) as part of the Financial Audit. The total 2013 surplus including interest is \$1,281,336 (\$1,201,811 plus interest of \$79,525), see **Tables 6 and 8**.

Interest Payment to Recology for 2013 Revenue Reconciliation Shortfall. The Franchise Agreement(s) with Recology provide for an interest charge at the rate of prime plus one percent (i.e., currently 4.25%) for the shortfall identified in the 2013 Revenue Reconciliation Report described above. The calculation of interest on shortfalls was clarified and approved by the Board on March 27, 2014 (agenda item 8A), per authorizing the Executive Director to execute a Memorandum of Understanding (MOU) with Recology. The net amount of interest charged to the Member Agencies from Recology for

2013 is \$79,525 (Table H in the Recology Application). The SBWMA has reviewed Recology's calculations to ensure compliance with the MOU approved by the Board on March 27, 2014.

Performance Incentive/Disincentive Payments (and Liquidated Damages). The Franchise Agreement(s) with Recology require the company to include the Performance Incentives/Disincentives calculations in the Annual Report. The Board approved the final payment of \$253,210 at the June 26, 2014 Board meeting. This payment is net of additional Liquidated Damages due from the company in 2013 and is included in Recology's revised final 2015 Compensation Application.

This incentive payment is primarily due to an increase in recycling achieved during 2013 over that achieved in 2012. The total Recology recycling diversion incentive payment for 2011 was \$913,060 in 2012 it was \$489,164 for Overall Diversion, and in 2013 it was \$257,650 (these annual totals are not net of Liquidated Damages) or a year over year 47% reduction. The diversion achieved annually is leveling off as programs mature.

The Performance Incentive/Disincentive payments are allocated to the Member Agencies based on the quantity of solid waste tons disposed by each. Per the Franchise Agreements, the Liquidated Damages reported by Recology are not allocated but applied specifically to each Member Agency.

Recurring Items

Three cities also have cost unique adjustments: Menlo Park has an additional cost for customer billing services (\$24,201) that were in-house prior to 2011, Hillsborough has a cost reduction for not buying new organics carts at the start of the contract (\$20,193),¹ and San Carlos has a cost reduction for residential food scraps kitchen pails bought by the City prior to the start of the new contract with Recology (\$6,071).

The Town of Hillsborough also negotiated a reduction in the cost of back yard service which is adjusted each year. The 2015 cost reduction is \$433,191.

3.B Adjustment of 2014 Compensation to 2015

As prescribed in Article 11, Attachment K and Attachment N of the Franchise Agreements, the adjustment of the 2014 compensation to 2015 compensation is predominantly based on the annual percentage change in select CPI indices to various cost categories. As previously explained, the Recology drivers, mechanics and office clerical CBA related expenses have all reverted to a CPI index adjustment commencing last year (rate year 2014).

Table 3 on the following page provides the detailed results from making all compensation adjustments from 2014 to 2015. The application of all adjustment factors to the costs approved in the company's 2014 Compensation Application results in an overall increase in Recology's base 2015 compensation totaling \$356,435 (i.e., 0.6% increase over 2014). With the inclusion of Performance Incentive payments, the total result is a net increase in total contractor's compensation of \$137,473 per **Table 3** (i.e., 0.2%).

¹ The 2015 Application includes depreciation for replacement organic carts from 2011 through 2013. This depreciation totals \$10,278, which reduces the Town's savings (originally calculated at \$32,502) for purchasing used carts. This new depreciation expense commencing in 2015 was approved by the Town contingent on Recology's compliance with conditions put forth by the Town related to reporting and ownership of the containers upon expiration of the Franchise Agreement.

Table 3 – Results of Adjustments of 2014 Costs to 2015 Costs

RECOLOGY COMPENSATION DETAIL	Costs - 2014	Costs - 2015	% of Total Cost	\$ Change	% Change
Annual Cost of Operations					
Direct Labor-Related Costs					
Wages	15,788,215	16,087,056	27.9%	298,841	1.9%
Benefits	6,283,751	6,402,691	11.1%	118,940	1.9%
Payroll Taxes	1,313,579	1,338,443	2.3%	24,864	1.9%
Workers Compensation Insurance	1,390,582	1,417,940	2.5%	27,359	2.0%
Total Direct Labor Related-Costs	24,776,127	25,246,130	43.7%	470,003	1.9%
Direct Fuel Costs	4,218,052	4,108,341	7.1%	(109,711)	-2.6%
Other Direct Costs	2,125,690	2,150,774	3.7%	25,083	1.2%
Depreciation					
- Collection Vehicles	4,016,792	4,016,792	7.0%	-	0.0%
- Containers	1,882,550	1,882,550	3.3%	-	0.0%
Total Depreciation	5,899,342	5,899,343	10.2%	1	0.0%
Allocated Indirect Costs excluding Depreciation					
General and Administrative	6,943,824	7,055,693	12.2%	111,868	1.6%
Operations	1,720,794	1,750,219	3.0%	29,426	1.7%
Vehicle Maintenance	2,951,711	3,005,558	5.2%	53,847	1.8%
Container Maintenance	1,023,338	1,039,517	1.8%	16,179	1.6%
Total Allocated Indirect Costs excluding Depreciation	12,639,667	12,850,988	22.3%	211,321	1.7%
Total Allocated Indirect Depreciation Costs	152,451	152,451	0.3%	-	0.0%
Annual Implementation Cost Amortization	187,175	187,175	0.3%	-	0.0%
Total Annual Cost of Operations	49,998,504	50,595,201	87.7%	596,697	1.2%
Profit	5,248,462	5,311,098	9.2%	62,637	1.2%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	55,246,966	55,906,300	96.9%	659,334	1.2%
Contractor Pass-Through Costs					
Interest Expense	2,224,726	1,935,353	3.4%	(289,373)	-13.0%
Interest Expense on Implementation Cost	73,498	63,894	0.1%	(9,604)	-13.1%
Contract Changes to Specific Agencies	(431,332)	(435,254)	-0.8%	(3,922)	0.9%
Total Contractor Pass-Through Costs	1,866,892	1,563,993	2.7%	(302,899)	-16.2%
BASE CONTRACTOR'S COMPENSATION	57,113,858	57,470,293	99.6%	356,435	0.6%
Other Adjustments					
Performance Incentives / Disincentives	472,171	253,210	0.4%	(218,961)	-46.4%
Total Other Adjustments	472,171	253,210	0.4%	(218,961)	-46.4%
TOTAL CONTRACTOR'S COMPENSATION	\$ 57,586,029	\$ 57,723,503	100.0%	\$ 137,473	0.2%

Table 4 below denotes the total cost adjustment to each cost category and the specific index prescribed in the Franchise Agreement(s).

Table 4 – Results of Cost Adjustments

Cost Category	Cost Adjustment	Index	Explanation
CBA Wages and Benefits (Drivers, Mechanics, Clerical)	1.89%	Index #1	The CBA wage & benefits adjustment is based on the change in a CPI Index.
Payroll Tax	1.89%	N/A	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2015; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance	1.97%	Index #2	The Worker's Comp Insurance adjustment is based on the change in a CPI Index.
Depreciation – Collection Vehicles	0.0%	N/A	No adjustment in 2015.
Depreciation - Containers	0.0%	N/A	No adjustment in 2015.
Non-CBA Labor	1.89%	Index #1	The Non-CBA Labor cost (management and supervisors) adjustment is based on the change in a CPI index.
Fuel	-2.60%	Index #3	The Fuel expense is adjusted by the change in a fuel index.
Other Indirect Cost	1.18%	Index #4	The Other Operating cost (insurance, general office expense, safety, etc.) is adjusted by 80% of a change in a CPI index.
Application of Index to the Cost Categories	Cost Adjustment	Reference	Specific Index Prescribed in the Franchise Agreement(s)
CBA & non-CBA Wages & Benefits	1.89%	Index #1	U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Service-Producing Industries (seasonally adjusted, total compensation, series no. cis201s0000000000i successor to Ecs12102i ended 2005.
Worker's Compensation Insurance	1.97%	Index #2	U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Private Industry (Not seasonally adjusted, total compensation, series no. CIU2030000000000A).
Fuel	-2.60%	Index #3	U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index - Commodity Index for #2 diesel fuel (not seasonally adjusted, fuels and related products and power, series no. wpu057303).
Other Operating Expense	1.18%	Index #4	U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sao).

3.C Recommended Adjustment to Recology's Compensation for 2015

Based on the net results of the compensation adjustments previously described and the analysis of the 2015 Recology Compensation Application, SBWMA is recommending that the SBWMA Board approve an adjustment to Recology's 2015 compensation as delineated in **Table 5 – Summary of Adjusted 2014 Compensation to 2015 Compensation**. This table provides a summary of the approved 2014 and adjusted 2015 costs. The total adjustment to Recology's contractor's compensation is 0.2%.

Table 5 – Summary of 2014 Compensation to 2015 Compensation

RECOLOGY COMPENSATION SUMMARY	Costs - 2014	Costs - 2015	% of Total Cost	\$ Change	% Change
Total Annual Cost of Operations	49,998,504	50,595,201	87.7%	596,697	1.2%
Profit	5,248,462	5,311,098	9.2%	62,637	1.2%
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TOTAL CONTRACTOR'S COMPENSATION	\$ 57,586,029	\$ 57,723,503	100.0%	\$ 137,473	0.2%

Note: Includes Member Agency specific contract changes for Hillsborough, Menlo Park and San Carlos.

3.D Recology Cost Allocation Process by Member Agency

Section 3 of the Recology Compensation Application describes how compensation is allocated to each Member Agency after the 2014 total compensation is adjusted. Article 11 and Attachment K of the Franchise Agreements prescribe the process to allocate the company's compensation equitably across the Member Agencies. Nine cost categories across seventeen lines of business are allocated to each Member Agency by four agency specific operational statistics. These operational statistics include:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

The statistics used to allocate costs for 2015 are based on operational metrics for each Member Agency compiled by Recology in April/May 2014. The cost allocation process is similar to the process used under the previous contract with Allied Waste/Republic Services.

While the services provided by Recology are uniform across the Member Agencies, the cost to provide these services vary by Member Agency based on topography, housing density, traffic patterns, and customer subscription levels, etc. For these reasons, the cost to provide service is reallocated annually to the individual Member Agencies based on current operational metrics.

The metric used by Recology to allocate costs for the Venues and Events line of business across the Member Agencies, is different than that prescribed in the Franchise Agreements. Recology and the SBWMA agree that if the method prescribed for this line of business were used, the allocation of these costs would not be equitable. Thus, the company has allocated these specific costs based on the of number of single-family accounts in service and not the route labor hours or route hours expended to provide this service during April/May when the operational metrics are compiled. This approach was approved by the Board and has been applied to the compensation adjustment since Rate Year Two (2012). For 2015, it applies to approximately 0.09% of the total base compensation.

3.E Results of Cost Allocation

The cost allocation by Member Agency for each cost category and the total contactor's compensation is provided in **Table 6 – Member Agency Cost Allocation**. The cost allocation by line of business for each Member Agency is found in Recology's Compensation Application as Appendix 3-3, 3-4 and 3-5.

Recology's revised July 30 Application included a correction to the commercial and multi-family dwelling (MFD) route and labor hours allocated to Redwood City and Unincorporated County (CFA). The result is an increase in cost to Redwood City (\$16,772) and a reduction to CFA (\$-16,772). Please note that this change was not explained in Recology's July 30 revised Application. The change in hours is reflected in Recology's Application in the Appendix 1-2, Tables 7 and 8.

Table 6 – Member Agency Cost Allocation

2015 Costs														
BASE COLLECTION COSTS	2015 Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorp. County
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$16,087,056	\$414,595	\$1,020,799	\$1,646,504	\$636,448	\$932,795	\$712,942	\$1,536,427	\$510,138	\$2,899,466	\$1,374,805	\$3,559,930	\$272,181	\$570,027
Benefits for CBAs	\$6,402,691	\$167,403	\$408,493	\$642,608	\$254,504	\$369,708	\$288,632	\$605,643	\$204,565	\$1,154,351	\$548,074	\$1,419,205	\$109,047	\$230,457
Payroll Taxes	\$1,338,443	\$34,494	\$84,930	\$136,989	\$52,952	\$77,609	\$59,317	\$127,831	\$42,443	\$241,236	\$114,384	\$296,186	\$22,645	\$47,426
Workers Compensation Insurance	\$1,417,940	\$36,543	\$89,975	\$145,125	\$56,098	\$82,218	\$62,840	\$135,423	\$44,965	\$255,564	\$121,178	\$313,778	\$23,991	\$50,243
Total Direct Labor Related-Costs	\$25,246,130	\$653,035	\$1,604,198	\$2,571,226	\$1,000,002	\$1,462,329	\$1,123,731	\$2,405,324	\$802,111	\$4,550,617	\$2,158,441	\$5,589,100	\$427,863	\$898,153
Direct Fuel Costs	\$4,108,341	\$112,349	\$252,785	\$388,665	\$164,734	\$245,162	\$198,179	\$412,827	\$125,956	\$747,309	\$358,875	\$870,347	\$74,177	\$156,976
Other Direct Costs	\$2,150,774	\$56,869	\$132,603	\$209,814	\$85,363	\$128,121	\$99,327	\$217,189	\$65,088	\$391,297	\$188,719	\$459,164	\$37,665	\$79,552
Depreciation														
- Collection Vehicles	\$4,016,792	\$113,022	\$244,835	\$378,001	\$156,970	\$241,740	\$193,880	\$418,966	\$119,157	\$731,793	\$354,851	\$836,229	\$73,054	\$154,294
- Containers	\$1,882,550	\$58,416	\$123,998	\$164,155	\$84,856	\$115,730	\$59,158	\$182,268	\$56,777	\$339,881	\$168,254	\$411,007	\$36,090	\$81,961
Total Depreciation	\$5,899,342	\$171,439	\$368,833	\$542,156	\$241,825	\$357,470	\$253,037	\$601,234	\$175,934	\$1,071,675	\$523,105	\$1,247,236	\$109,144	\$236,255
Allocated Indirect Costs														
General and Administrative	\$7,055,693	\$109,543	\$424,151	\$651,675	\$358,265	\$443,830	\$168,282	\$766,331	\$202,024	\$1,310,886	\$669,536	\$1,576,923	\$108,440	\$265,807
Operations	\$1,750,219	\$49,418	\$105,079	\$178,603	\$66,649	\$106,605	\$85,344	\$183,653	\$48,424	\$315,180	\$152,570	\$358,443	\$32,876	\$67,375
Vehicle Maintenance	\$3,005,558	\$84,862	\$180,447	\$306,706	\$114,452	\$183,068	\$146,556	\$315,377	\$83,155	\$541,242	\$262,001	\$615,535	\$56,457	\$115,700
Container Maintenance	\$1,039,517	\$24,496	\$65,768	\$98,350	\$48,414	\$66,242	\$26,055	\$116,165	\$28,456	\$189,410	\$92,124	\$230,061	\$16,168	\$37,806
Total Allocated Indirect Costs	\$12,850,988	\$268,320	\$775,445	\$1,235,334	\$587,780	\$799,745	\$426,237	\$1,381,525	\$362,060	\$2,356,718	\$1,176,231	\$2,780,962	\$213,941	\$486,689
Total Allocated Indirect Depreciation Costs	\$152,451	\$4,304	\$9,078	\$15,683	\$5,822	\$9,376	\$7,390	\$15,922	\$4,160	\$27,469	\$13,385	\$31,206	\$2,823	\$5,834
Annual Implementation Cost Amortization	\$187,175	\$5,639	\$11,084	\$17,649	\$7,966	\$10,926	\$9,895	\$18,175	\$5,635	\$34,408	\$16,040	\$38,607	\$3,470	\$7,682
Total Annual Cost of Operations	\$50,595,200	\$1,271,954	\$3,154,026	\$4,980,526	\$2,093,493	\$3,013,129	\$2,117,796	\$5,052,195	\$1,540,945	\$9,179,494	\$4,434,797	\$11,016,622	\$869,083	\$1,871,140
Profit	\$5,311,098	\$133,520	\$331,086	\$522,818	\$219,759	\$316,295	\$222,310	\$530,341	\$161,757	\$963,593	\$465,531	\$1,156,441	\$91,230	\$196,418
Operating Ratio	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%
Total Operating Cost	\$55,906,299	\$1,405,474	\$3,485,111	\$5,503,344	\$2,313,252	\$3,329,425	\$2,340,107	\$5,582,536	\$1,702,702	\$10,143,087	\$4,900,328	\$12,173,063	\$960,313	\$2,067,558
Contractor Pass-Through Costs														
Interest Expense	\$1,935,353	\$51,487	\$120,815	\$185,587	\$78,547	\$117,820	\$75,036	\$201,758	\$58,377	\$352,149	\$172,459	\$415,661	\$33,559	\$72,097
Interest Expense on Implementation Cost	\$63,894	\$1,718	\$3,772	\$6,404	\$2,726	\$3,781	\$2,950	\$6,259	\$1,987	\$11,832	\$5,475	\$13,544	\$1,078	\$2,368
Contract Changes to Specific Agencies	(\$435,254)	\$0	\$0	\$0	\$0	\$0	(\$453,384)	\$24,201	\$0	\$0	(\$6,071)	\$0	\$0	\$0
BASE COMPENSATION	\$57,470,292	\$1,458,679	\$3,609,698	\$5,695,334	\$2,394,526	\$3,451,025	\$1,964,709	\$5,814,754	\$1,763,066	\$10,507,068	\$5,072,191	\$12,602,268	\$994,950	\$2,142,023
Incentives and Disincentives	\$253,210	\$2,395	\$11,280	\$33,983	\$16,423	\$15,327	\$2,878	\$23,827	\$7,592	\$54,105	\$18,063	\$60,521	\$1,576	\$5,239
Total Contractor Adjustments	\$253,210	\$2,395	\$11,280	\$33,983	\$16,423	\$15,327	\$2,878	\$23,827	\$7,592	\$54,105	\$18,063	\$60,521	\$1,576	\$5,239
TOTAL CONTRACTOR'S COMPENSATION	\$57,723,502	\$1,461,074	\$3,620,978	\$5,729,318	\$2,410,949	\$3,466,353	\$1,967,587	\$5,838,582	\$1,770,658	\$10,561,173	\$5,090,254	\$12,662,789	\$996,526	\$2,147,262
Prior Year's Surplus/Shortfall to/from Recology														
Revenue Reconciliation 2013 (Surplus)/Shortfall	\$1,201,811	\$136,721	\$883,732	(\$41,259)	(\$134,974)	\$333,499	(\$356,908)	\$150,422	(\$17,634)	(\$144,629)	\$91,362	\$433,685	(\$14,775)	(\$117,433)
Interest on 2013 (Surplus)/Shortfall	\$79,525	\$8,716	\$56,338	\$0	\$0	\$0	\$0	\$9,589	\$0	\$0	\$5,824	\$0	(\$942)	\$0
Sub-Total	\$1,281,336	\$145,437	\$940,070	(\$41,259)	(\$134,974)	\$333,499	(\$356,908)	\$160,011	(\$17,634)	(\$144,629)	\$97,186	\$433,685	(\$15,717)	(\$117,433)
TOTAL BALANCE TO CONTRACTOR 2015	\$59,004,838	\$1,606,512	\$4,561,048	\$5,688,059	\$2,275,975	\$3,799,852	\$1,610,679	\$5,998,592	\$1,753,024	\$10,416,544	\$5,187,441	\$13,096,474	\$980,809	\$2,029,829
TOTAL BALANCE TO CONTRACTOR - 2014	\$55,614,705	\$970,624	\$4,306,482	\$4,660,449	\$2,275,396	\$3,383,394	\$1,774,784	\$5,853,875	\$1,661,806	\$9,236,794	\$4,998,608	\$13,322,193	\$788,856	\$2,381,445
Change in Contractor's Compensation	\$3,390,132	\$635,888	\$254,566	\$1,027,610	\$579	\$416,458	(\$164,105)	\$144,717	\$91,218	\$1,179,750	\$188,833	(\$225,719)	\$191,953	(\$351,616)
Percentage Change in Compensation	6.10%	65.51%	5.91%	22.05%	0.03%	12.31%	-9.25%	2.47%	5.49%	12.77%	3.78%	-1.69%	24.33%	-14.76%

SECTION 4 2014 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS

4.A Components of Member Agency Revenue Requirement

The compensation to Recology for 2015 collection service is only one of several components that make up the total collection cost reflected in the Member Agency's solid waste collection rates. In addition to the Recology compensation for collection service, there are pass-through costs (discussed below) that are also included in the Member Agency's Revenue Requirement (see **Table 8 –Member Agency Projected Rate Impacts**).

4.B Pass-Through Costs

The pass-through costs are the following:

1. Disposal and processing expense – Disposal and processing expenses are based on projected tonnage and estimated 2015 tip fees at the Shoreway Environmental Center. No increase in 2015 Shoreway tip fees are planned. Tonnage assumptions used were provided to Member Agencies on July 21st with any comments due back on August 9th. The tonnage assumptions have been revised based on new tonnage information from Recology received September 16, 2014.
2. Franchise fee – Franchise and other Member Agency fees and programs (e.g., Curbside Inc. Door-to-Door HHW Collection Service). Fee assumptions used were provided to Member Agencies on July 21st with any comments due back on August 9th.
3. Agency specific changes – Agency specific changes to the Agreements are captured and applied to each Member Agency. These changes are: Recology billing service for Menlo Park, credit for Hillsborough purchase of organics carts and reduced cost for back yard service, and a cost credit for city-purchased kitchen pails to San Carlos.

4.C Cost Variance from 2014 to 2015

The variance in Total Revenue Requirement from 2014 to 2015 is shown in **Table 7** by cost category and the rate impact of each change. The Recology and other pass-through costs component of the 2015 rate impact shows an average SBWMA negative rate adjustment of 0.9%. This rate adjustment is broken down into the following components:

1. The 2015 projected revenue before 2015 rate increases (\$98,758, 368) is compared to the current estimated revenue requirement for 2014 (i.e., \$97,623,108). This shows a base revenue surplus of \$1,135,259 due to revenue exceeding the 2014 base total cost. Rates could decrease by 1.1% due to this surplus.
2. Recology Base Compensation increased 0.6% or \$356,435 over 2014 compensation. Incentive payments owed to Recology decreased by \$218,961. The net compensation increase to Recology is \$137,473 with a rate impact of 0.2%
3. Disposal and Processing Fees at Shoreway are basically flat primarily due to no tip fee increase planned for 2015.
4. Member Agency fees are also basically flat.

The specific variance summary for each Member Agency is contained in **Appendix D** and will vary in accordance with the specific circumstances for each Member Agency. For the details on operational statistics and compensation by Member Agency, including year over year changes, please refer to Part II section 1 of Recology's Application.

Table 7 – Recology and Other Pass-Through Costs Variance and Rate Adjustment

COLLECTION RATE VARIANCE ANALYSIS	SBWMA TOTAL				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$98,758,368			
Projected Collection Revenue (After Rate Increase)	\$98,750,452				
2014 Base Revenue Surplus / <Shortfall>			\$1,135,259		-1.1%
Total Contractor's Compensation					
Base Compensation	\$57,545,191	\$57,905,546	\$360,355	0.6%	0.4%
Agency Specific Contract Changes	(\$431,332)	(\$435,254)	(\$3,922)	0.9%	0.0%
Incentives / Disincentives	\$472,171	\$253,210	-\$218,961	-46.4%	-0.2%
Total Contractor's Compensation	\$57,586,030	\$57,723,503	\$137,473	0.2%	0.1%
Other Pass-Through Costs					
Disposal & Processing Fees	\$25,923,251	\$25,918,674	(\$4,577)	0.0%	0.0%
Agency Franchise & Other Fees	\$14,113,827	\$14,131,238	\$17,410	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$40,037,079	\$40,049,912	\$12,833	0.0%	0.0%
TOTAL REVENUE REQUIREMENT	\$97,623,108	\$97,773,415	\$150,306	0.2%	0.2%
2014 Estimated Surplus / <Shortfall>	\$1,127,343				
2015 Estimated Surplus / <Shortfall>		\$984,954			
Required Revenue Adjustment		-1.0%			-1.0%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

4.D Total Recommended Rate Adjustment

The SBWMA is responsible for compiling all the components that make up the recommended rate adjustment for 2015 and are summarized in **Table 8**. The recommended rate adjustment is derived from comparing the 2015 base revenue at 2014 rates (\$98,758,368) to the total revenue impact on line F.1 (\$96,522,162) which in total results in a surplus balance with Recology (\$2,236,206) and a 2.3% recommended rate reduction (line F.3). The following provides an explanation of the sections in **Table 8**.

- **Section A** provides the 2015 Revenue Surplus/Shortfall (**A.1**), Agency Fees on the additional revenue (**A.2**) and the Rate Adjustment Percentage (**A.3**) from changes in the Total Contractor's (i.e., Recology) Compensation for 2015 and the other Pass-Through cost components of disposal expense and agency fees. *The total SBWMA rate impact is negative 1.0%.*
- **Section B** provides the results of the 2013 Recology Revenue Reconciliation surplus / shortfall that must be added to the 2015 rate adjustment. *The total SBWMA rate impact is 1.6%.*
- **Section C** is the 2015 Required Rate Adjustment which is the sum of sections A and B. ***The total SBWMA rate impact is 0.7%.***

- **Section D** provides the “2014 Estimated Revenue Reconciliation” surplus/shortfall for informational purposes only. Also in this section is the 2012 surplus/shortfall which would have been included in the 2014 rate adjustment. The total for all SBWMA Member Agencies is a \$2,882,996 estimated surplus. The 2014 Revenue Reconciliation will be finalized in 2015, similar to how the 2013 Revenue Reconciliation was finalized in 2014.
- **Section E** provides an opportunity for agencies to estimate lost revenue from Future Residential Cart Migration or other reasons. This is for informational purposes only and Agencies are not obligated to set rates to capture any shortfalls associated with projected future cart migration but may find it prudent to do so.
- **Section F** provides the “Total Rate Impact” which includes the result of Sections C, D and E. **The total SBWMA rate impact is a decrease of 2.3%. The Member Agencies are obligated to set rates to generate the revenue needed as denoted in Section F per the MOU between Recology and SBWMA. Agencies that set rates lower than delineated in Section F and experience a shortfall in revenue are liable for future interest charges from Recology.**

Table 8 – Total Collection Rate Impact (Part 1 of 2)

SBWMA								
TOTAL COLLECTION RATE IMPACT BY MEMBER AGENCY - 2015								
<i>revised as of 9/16/2014</i>	2015 Rate Year							
	2015 Total	Atherton	Belmont ¹	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park
2015 Collection Revenue @ 2014 Rates	\$98,758,368	\$3,124,450	\$7,077,416	\$10,629,807	\$4,650,501	\$5,034,247	\$3,194,264	\$10,188,615
Total Contractor's Compensation	\$ 57,723,503	\$ 1,461,074	\$ 3,620,978	\$ 5,729,318	\$ 2,410,949	\$ 3,466,353	\$ 1,967,587	\$ 5,838,582
Other Pass-Through Costs								
Disposal & Processing Fees	\$ 25,918,674	\$ 909,848	\$ 1,358,146	\$ 2,944,680	\$ 1,527,668	\$ 1,455,665	\$ 700,156	\$ 2,658,278
Agency Franchise Fees	\$ 14,131,238	\$ 319,995	\$ 1,904,142	\$ 1,953,515	\$ 798,770	\$ 376,130	\$ 309,029	\$ 1,694,860
Total Other Pass-Through Costs	\$ 40,049,912	\$ 1,229,844	\$ 3,262,288	\$ 4,898,195	\$ 2,326,439	\$ 1,831,795	\$ 1,009,184	\$ 4,353,138
2015 REVENUE REQUIREMENT	\$97,773,415	\$2,690,918	\$6,883,266	\$10,627,512	\$4,737,388	\$5,298,147	\$2,976,771	\$10,191,719
A. 2015 RATE YEAR REVENUE REQUIREMENT								
A.1 Surplus/(Shortfall)	\$984,954	\$433,532	\$194,149	\$2,294	(\$86,886)	(\$263,901)	\$217,493	(\$3,105)
A.2 Agency Fees on A.1	(\$26,906)	\$0	\$0	\$0	(\$8,526)	(\$13,195)	\$0	(\$404)
A.3 Rate Adjustment Percentage <i>(See Rate Variance Analysis for detail.)</i>	-1.0%	-13.9%	-2.7%	0.0%	2.1%	5.5%	-6.8%	0.0%
B. 2013 Recology Revenue Reconciliation								
B.1 Surplus/-(Shortfall) , incl Interest	(\$1,281,334)	(\$145,437)	(\$940,070)	\$41,259	\$134,974	(\$333,499)	\$356,908	(\$160,011)
B.2 Agency Fees on B.1	(\$323,504)	(\$14,544)	(\$244,418)	\$0	\$0	(\$16,675)	\$0	(\$20,801)
B.3 Less Agency Funds Available	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
B.4 Rate Adjustment Percentage	1.6%	5.1%	16.7%	-0.4%	-2.9%	7.0%	-11.2%	1.8%
C. 2015 REQUIRED REVENUE ADJUSTMENT (A+B)								
C.1 Cumulative Revenue Requirement	\$99,405,157	\$2,850,899	\$8,067,755	\$10,586,253	\$4,610,940	\$5,661,516	\$2,619,863	\$10,372,936
C.2 SubTotal Year Surplus/(Shortfall)	(\$646,790)	\$273,552	(\$990,339)	\$43,553	\$39,562	(\$627,270)	\$574,401	(\$184,321)
C.3 Rate Adjustment Percentage	0.7%	-8.8%	14.0%	-0.4%	-0.9%	12.5%	-18.0%	1.8%
D. 2014 ESTIMATED REVENUE RECONCILIATION*								
D.1 Surplus/(Shortfall), 2014 estimated	\$1,127,343	\$378,661	\$151,377	\$54,475	(\$76,110)	(\$452,020)	\$224,966	(\$7,581)
D.2 Agency Fees on D.1	(\$31,055)	\$0	\$0	\$0	(\$7,469)	(\$22,601)	\$0	(\$986)
D.3 Surplus/(Shortfall), 2012 FINAL (incl. interest)	\$1,786,708	\$529,570	(\$644,512)	\$1,042,174	\$106,172	\$258,556	\$220,512	(\$50,790)
D.4 Additional 2012 Revenue billed in 2013	\$0						\$0	
D.5 Net 2012 / 2014 Surplus/(Shortfall)	\$2,882,996	\$908,231	(\$493,136)	\$1,096,649	\$22,593	(\$216,065)	\$445,478	(\$59,356)
D.6 Rate Adjustment Percentage <i>(See Rate Variance Analysis for detail)</i> <i>*2014 actual revenue reconciliation covered in 2015 rates</i>	-2.9%	-29.1%	7.0%	-10.3%	-0.5%	4.3%	-13.9%	0.6%
E. RESIDENTIAL CART MIGRATION ESTIMATED FUTURE REVENUE SHORTFALL								
E.1 Can Migration Impact	\$0							
E.2 Rate Adjustment Percentage	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
F. TOTAL RATE IMPACT (C+D+E)**								
F.1 TOTAL REVENUE IMPACT	\$96,522,162	\$1,942,667	\$8,560,890	\$9,489,605	\$4,588,347	\$5,877,582	\$2,174,385	\$10,432,292
F.2 Total Year Surplus/(Shortfall)	\$2,236,206	\$1,181,783	(\$1,483,474)	\$1,140,202	\$62,155	(\$843,335)	\$1,019,879	(\$243,677)
F.3 Cumulative Rate Adjustment Percentage	-2.3%	-37.8%		-10.7%	-1.3%	16.8%	-31.9%	2.4%

Table 8 – Total Collection Rate Impact (Part 2 of 2)

SBWMA						
TOTAL COLLECTION RATE IMPACT BY MEMBER AGENCY - 2015						
<i>revised as of 9/16/2014</i>	2015 Rate Year					
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
2015 Collection Revenue @ 2014 Rates	\$ 2,655,892	\$ 18,010,818	\$ 8,094,326	\$ 21,408,361	\$ 1,501,854	\$ 3,187,818
<i>Additional Agency Funds</i>						
2015 Collection Revenue @ 2014 Rates	\$2,655,892	\$18,010,818	\$8,094,326	\$21,408,361	\$1,501,854	\$3,187,818
Total Contractor's Compensation	\$ 1,770,658	\$ 10,561,173	\$ 5,090,254	\$ 12,662,789	\$ 996,526	\$ 2,147,262
Other Pass-Through Costs						
Disposal & Processing Fees	\$ 777,105	\$ 5,006,359	\$ 1,853,551	\$ 5,570,972	\$ 372,306	\$ 783,940
Agency Franchise Fees	\$ 141,455	\$ 2,466,104	\$ 942,799	\$ 2,948,826	\$ 96,637	\$ 178,976
Total Other Pass-Through Costs	\$ 918,560	\$ 7,472,462	\$ 2,796,350	\$ 8,519,798	\$ 468,944	\$ 962,915
2015 REVENUE REQUIREMENT	\$2,689,218	\$18,033,635	\$7,886,604	\$21,182,587	\$1,465,470	\$3,110,177
A. 2015 RATE YEAR REVENUE REQUIREMENT						
A.1 Subtotal Year Surplus/(Shortfall)	(\$33,326)	(\$22,817)	\$207,721	\$225,775	\$36,384	\$77,641
A.2 Agency Fees on A.1	(\$1,666)	(\$3,115)	\$0	\$0	\$0	\$0
A.3 Rate Adjustment Percentage	1.3%	0.1%	-2.6%	-1.1%	-2.4%	-2.4%
<i>(See Rate Variance Analysis for detail)</i>						
B. 2013 Recology Revenue Reconciliation						
B.1 Subtotal Year Surplus/<Shortfall> , incl Interest	\$17,634	\$144,629	(\$97,186)	(\$433,685)	\$15,717	\$117,433
B.2 Agency Fees on B.1	\$0	\$0	(\$9,719)	(\$17,347)	\$0	\$0
B.3 Less Agency Funds Available			\$0			
B.4 Rate Adjustment Percentage	-0.7%	-0.8%	1.3%	2.1%	-1.0%	-3.7%
C. 2015 REQUIRED REVENUE ADJUSTMENT (A+B)						
C.1 Cumulative Revenue Requirement	\$2,673,250	\$17,892,121	\$7,993,509	\$21,633,619	\$1,449,753	\$2,992,744
C.2 Total Year Surplus/(Shortfall)	(\$17,358)	\$118,697	\$100,817	(\$225,258)	\$52,101	\$195,074
C.3 Rate Adjustment Percentage	0.7%	-0.7%	-1.2%	1.1%	-3.5%	-6.1%
D. 2014 ESTIMATED REVENUE RECONCILIATION*						
D.1 Surplus/(Shortfall), 2014 estimated	\$40,994	\$278,893	\$79,432	\$357,031	\$35,926	\$61,299
D.2 Agency Fees on D.1	\$0	\$0	\$0	\$0	\$0	\$0
D.3 Surplus/(Shortfall), 2012 FINAL (incl. interest)	\$35,269	\$1,022,956	\$214,542	(\$754,507)	\$0	(\$193,233)
D.4 Additional 2012 Revenue billed in 2013						
D.5 Net 2012 / 2014 Surplus/(Shortfall)	\$76,263	\$1,301,850	\$293,974	(\$397,476)	\$35,926	(\$131,935)
D.6 Rate Adjustment Percentage	-2.9%	-7.2%	-3.6%	1.9%	-2.4%	4.1%
<i>(See Rate Variance Analysis for detail)</i>						
<i>*2014 actual revenue reconciliation covered in 2015 rates</i>						
RESIDENTIAL CART MIGRATION ESTIMATED						
E. FUTURE REVENUE SHORTFALL						
E.1 Can Migration impact						
E.2 Rate Adjustment Percentage	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
F. TOTAL RATE IMPACT (C+D+E)**						
F.1 TOTAL REVENUE IMPACT	\$2,596,988	\$16,590,271	\$7,699,534	\$22,031,095	\$1,413,826	\$3,124,679
F.2 Total Year Surplus/(Shortfall)	\$58,904	\$1,420,547	\$394,791	(\$622,734)	\$88,027	\$63,140
F.3 Cumulative Rate Adjustment Percentage	-2.2%	-7.9%	-4.9%	2.9%	-5.9%	-2.0%

SECTION 5 CONCLUSION

The SBWMA's review of the 2015 Recology Compensation Application results in the recommendation to adjust the 2015 compensation to Recology (i.e., Total Contractor's Compensation) by a 0.2% (i.e., \$137,473) increase over approved 2014 compensation, as provided in the Executive Summary and Tables A, B and E in Recology's Application.

The Member Agency snapshot report prepared by the SBWMA, and updated by Recology annually, can be found in the Recology Application as Appendix 3. Each snapshot report includes six tables for each Member Agency including: 1) a three year summary of major statistics used to allocate costs; 2) detailed comparison of Recology costs for 2015 vs. 2014; 3) detailed cost comparison of 2015 vs. 2014 by Recology service sectors; and, 4) three tables showing the actual cost allocation process by service sector and the seventeen lines of business.

APPENDIX A

RECOLOGY 2015 COMPENSATION
APPLICATION ISSUED ON
JULY 30, 2014 REFLECTING REDLINE
CHANGES FROM THE VERSION
SUBMITTED ON JUNE 13, 2014 (PART I
NARRATIVE SECTIONS 1 – 4 ONLY)

SBWMA FINAL REPORT REVIEWING
THE RECOLOGY 2015
COMPENSATION APPLICATION

September 18, 2014

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EXECUTIVE SUMMARY

Overview of the Application

Recology San Mateo County (Recology) is pleased to submit our 2015 Application for a Contractor's Compensation Adjustment per Section 11.04 of the Franchise Agreements with the twelve South Bayside Waste Management Authority (SBWMA) Member Agencies. The format of this Application is similar to the prior year submittal, which had been modified, with the assistance of the SBWMA and feedback from Board members, in an effort to provide a more user friendly and easier to understand Application.

The feedback received identified that the Application would be best presented in two parts. Part I is made up of the report summarizing the construction of the Calculation of Contractor's Compensation, the supporting tables and charts and describing identified cost allocation variances. Part 2 is made up of the source files and contains the data used to create the Application as well as other specific data identified in Article 11 of the Franchise Agreement as required information needed to be included in the Application.

Section 1 of this Application (Calculation of Contractor's Compensation for the 2015 Rate Year and Variance Analysis) explains the first step in calculating the annual adjustment to Recology's compensation. This section provides the results of our calculations and explains how the base compensation is adjusted using the indices prescribed in the Franchise Agreements. Also included are explanations on special issues such as Incentive and Disincentive payments and sections pertaining to several Member Agencies that have unique cost adjustments.

Section 2 (Annual 2013 Revenue Reconciliation) details the annual process to determine what net revenue Recology retained in compensation versus the amount actually owed to the company. This reconciliation of revenues billed by Recology calculates the surplus or shortfall due to/from each Member Agency for 2013.

Section 3 (Allocation of Costs to the Member Agencies) explains the process second step which is to allocate contractor's compensation across all Member Agencies equitably as prescribed in the Franchise Agreements. This section provides the details of the operational metrics used to allocate costs, the results of the cost allocation and explanations for the highest variances for the following agencies: Foster City and North Fair Oaks (CSA 8).

Section 4 (Cost Adjustment Calculations in Total and by Member Agency) explains the overall results and provides a description consists of the tables in the several Appendices which provide statistical tables and various cost adjustment tables. These tables provide

a summary of the detailed calculations and steps taken to derive the compensation adjustment for 2015 by Member Agency.

Results of Index and Non-Indexed Based Cost Adjustments (Section 1)

Section 1 provides the results of the index and non-index based cost adjustments for the twelveten cost categories which ranged from -2.6% (i.e., Fuel) to a 1.97% increase (i.e., Worker's Compensation Insurance). The increasechanges for the 4210 cost categories can be seen on **Table C**, page 9. The total adjustment for index-based cost adjustments is a 1.2% increase in compensation before interest and incentives/disincentives adjustments.

Specific Issues for 2015 (Section 1)

Section 1.2 describes the specific issues for 2015 which include a calculation of performance incentives and disincentives and Member Agency specific issues. The net performance incentive payment, which is lowered by performance disincentive payments, is calculated at \$260253,210. The Member Agency specific issues are discussed in detail in Section 1.3.

Results of the 2013 Revenue Reconciliation (Section 2)

Recology issued its 2013 Revenue Reconciliation Report to the SBWMA and its Member Agencies on March 31, 2014, per Section 11.03 of the Franchise Agreement(s). The Revenue Reconciliation compares the amount owed to Recology to the amount paid to Recology by Member Agency. The result was a shortfall including interest due to Recology of approximately \$1,281,336 in 2013. The impact across the Member Agencies ranged from a shortfallshortfalls in the Citycities of Belmont of \$940,070 and San Mateo of \$433,685 to a surplus in Hillsborough of \$356,908. The following table provides the results of the 2013 revenue reconciliation.

Member Agency	2013 Surplus or (Shortfall)	Interest Due (to)/from Recology	Total
Atherton	(\$136,721)	(\$8,716)	(\$145,437)
Belmont	(\$883,732)	(\$56,338)	(\$940,070)
Burlingame	\$41,259	\$0	\$41,259
East Palo Alto	\$134,974	\$0	\$134,974
Foster City	(\$333,499)	\$0	(\$333,499)
Hillsborough	\$356,908	\$0	\$356,908
Menlo Park	(\$150,422)	(\$9,589)	(\$160,011)
North Fair Oaks	\$17,634	\$0	\$17,634
Redwood City	\$144,629	\$0	\$144,629
San Carlos	(\$91,362)	(\$5,824)	(\$97,186)
City of San Mateo	(\$433,685)	\$0	(\$433,685)
West Bay Sanitary District	\$14,775	\$942	\$15,717
County of San Mateo	\$117,433	\$0	\$117,433
Total	(\$1,201,811)	(\$79,525)	(\$1,281,336)

Please see West Bay Sanitary District Surplus/Shortfall discussion on page 17 section 1.3.6.

Results of the 2015 Cost Allocation (Section 3)

Section 3 provides the details of the allocation of total contractor collection costs to the Member Agencies. This cost allocation process resulted in year-over-year variances ranging from an increase in the North Fair Oaks of 4.03% or \$68,376 to a decrease in Foster City of 5.00% or \$181,804. The biggest driver factor of the cost allocation is driver hours attributed to each Member Agency which can fluctuate for a variety of reasons. The following table provides the percentage and dollar variance in the allocation of total costs compensation for 2015 compared to 2014.

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2014	2015	Difference %	Variance %	Difference \$
Atherton	2.60%	2.52%	-0.08%	-2.93%	\$ (44,002)
Belmont	6.33%	6.23%	-0.09%	-1.49%	\$ (54,449)
Burlingame	9.81%	9.84%	0.03%	0.30%	\$ 17,158
East Palo Alto	4.09%	4.14%	0.05%	1.15%	\$ 27,232
Foster City	6.27%	5.96%	-0.31%	-5.00%	\$ (181,804)
Hillsborough	4.18%	4.18%	0.00%	-0.01%	\$ (231)
Menlo Park	10.00%	10.00%	0.00%	-0.04%	\$ (2,523)
North Fair Oaks	2.93%	3.04%	0.12%	4.03%	\$ 68,376
Redwood City	17.66%	18.15%	0.48%	2.74%	\$ 280,071
San Carlos	9.00%	8.77%	-0.23%	-2.51%	\$ (130,907)
San Mateo	21.65%	21.76%	0.11%	0.53%	\$ 66,286
West Bay Sanitary	1.71%	1.72%	0.01%	0.44%	\$ 4,403
County of San Mateo	3.78%	3.70%	-0.09%	-2.26%	\$ (49,610)
Totals	100%	100%	0.00%	N/A	\$ (0)
Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.					
Year 2014 and 2015 percentages are shown rounded to two decimal places.					

2015 Total Adjustment to Contractor's Compensation (Section 4)

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2015 increased by 0.2%, or \$137,473 over the compensation approved for 2014. This total contractor's compensation adjustment for the SBWMA service area as a whole is summarized in the table on the next page.

	Compensation - 2014	Compensation - 2015	Change	% Change
Total Annual Cost of Operations	49,998,504	50,595,200	596,696	1.2%
Profit	5,248,462	5,311,098	62,637	1.2%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	55,246,966	55,906,299	659,333	1.2%
Total Contractor Pass-Through Costs	1,866,892	1,563,993	(302,899)	-16.2%
BASE CONTRACTOR'S COMPENSATION	57,113,858	57,470,292	356,434	0.6%
Other Adjustments				
Incentive / Disincentives	472,171	253,210	(218,961)	
Total Other Adjustments	-	-	-	
TOTAL CONTRACTOR'S COMPENSATION	57,586,029	57,723,502	137,473	0.2%

This table provides the year-over-year comparison of the percentage change in total Contractor's Compensation: due to Recology for collection services. **These figures do not include disposal and processing costs, franchise fees or the annual revenue reconciliation** Revenue Reconciliation surplus/shortfall.

1. CALCULATION OF CONTRACTOR'S COMPENSATION FOR THE 2015 RATE YEAR AND VARIANCE ANALYSIS

1.1. ANNUAL ADJUSTMENT TO CONTRACTOR'S BASE COMPENSATION

The process to adjust Recology's compensation entails several steps ~~as follows and~~ is which are explained in detail in ~~subsequent sections of~~ this report.

The first step is to adjust the prior year's costs by the various indices prescribed in the Franchise Agreements (refer to section 1.1.3.). ~~A~~The second step is to add specific adjustments to the Base Contractor's Compensation. These include Incentive/Disincentive payment owed to/from Recology and other specific adjustments that may arise in the normal course of this contract. ~~A~~The final step is to calculate the Surplus/Shortfall due to/from Recology for the prior year's compensation. Since this is a revenue issue and not a cost issue, it is dealt with separately in this report (refer to Section 2).

1.1.1. Overview of Annual Contractor's Compensation Adjustment

The annual compensation adjustment ~~for Recology~~process is prescribed in the Member Agency Franchise Agreements in Article 11 (Contractor's Compensation, Pass-Through Costs and Rates), Attachment K (Contractor's Compensation and Rate Setting Process) and Attachment N (Contractor's Compensation and Rate Setting Statistics). Article 11 provides an overview of the compensation methodology. Attachment K explains the detailed process and specific rules used to adjust the various cost categories and the allocation of costs to the Member Agencies. The tables that comprise Attachment N are used to calculate the specific cost adjustments prescribed in Attachment K. Therefore, the process to annually adjust Contractor's Compensation is implemented by following the provisions in Article 11, Attachment K and Attachment N.

1.1.2. Total Contractor's Compensation Adjustment

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2015 increased by 0.2%, or \$~~131,650~~137,473, to \$57,~~732,565~~723,502 over the compensation approved for 2014. This total cost adjustment for the SBWMA service area as a whole is summarized in **Table A** below.

Table A

	Compensation - 2014	Compensation - 2015	Change	% Change
Total Annual Cost of Operations	49,998,504	50,595,200	596,696	1.2%
Profit	5,248,462	5,311,098	62,637	1.2%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	55,246,966	55,906,299	659,333	1.2%
Total Contractor Pass-Through Costs	1,866,892	1,563,993	(302,899)	-16.2%
BASE CONTRACTOR'S COMPENSATION	57,113,858	57,470,292	356,434	0.6%
Other Adjustments				
Incentive / Disincentives	472,171	253,210	(218,961)	
Total Other Adjustments	-	-	-	
TOTAL CONTRACTOR'S COMPENSATION	57,586,029	57,723,502	137,473	0.2%

The adjusted Total Contractor's Compensation for each Agency is provided in **Table B** on the next page.

Please note that the figures in the above **Table A** and **Table B** do not include disposal and processing costs, franchise fees or the annual revenue reconciliation. **Table A** and **Table B** only pertain to Recology's Base Compensation.

Table B

		2015 Costs												
BASE COLLECTION COSTS	2015 Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$16,087,056	\$414,595	\$1,020,799	\$1,646,504	\$636,448	\$932,795	\$712,942	\$1,536,427	\$510,138	\$2,899,466	\$1,374,805	\$3,559,930	\$272,181	\$570,027
Benefits for CBAs	\$6,402,691	\$167,403	\$408,493	\$642,608	\$254,504	\$369,708	\$288,632	\$605,643	\$204,565	\$1,154,351	\$548,074	\$1,419,205	\$109,047	\$230,457
Payroll Taxes	\$1,338,443	\$34,494	\$84,930	\$136,989	\$52,952	\$77,609	\$59,317	\$127,831	\$42,443	\$241,236	\$114,384	\$296,186	\$22,645	\$47,426
Workers Compensation Insurance	\$1,417,940	\$36,543	\$89,975	\$145,125	\$56,098	\$82,218	\$62,840	\$135,423	\$44,965	\$255,564	\$121,178	\$313,778	\$23,991	\$50,243
Total Direct Labor Related-Costs	\$25,246,130	\$653,035	\$1,604,198	\$2,571,226	\$1,000,002	\$1,462,329	\$1,123,731	\$2,405,324	\$802,111	\$4,550,617	\$2,158,441	\$5,589,100	\$427,863	\$898,153
Direct Fuel Costs	\$4,108,341	\$112,349	\$252,785	\$388,665	\$164,734	\$245,162	\$198,179	\$412,827	\$125,956	\$747,309	\$358,875	\$870,347	\$74,177	\$156,976
Other Direct Costs	\$2,150,774	\$56,869	\$132,603	\$209,814	\$85,363	\$128,121	\$99,327	\$217,189	\$65,088	\$391,297	\$188,719	\$459,164	\$37,665	\$79,552
Depreciation														
- Collection Vehicles	\$4,016,792	\$113,022	\$244,835	\$378,001	\$156,970	\$241,740	\$193,880	\$418,966	\$119,157	\$731,793	\$354,851	\$836,229	\$73,054	\$154,294
- Containers	\$1,882,550	\$58,416	\$123,998	\$164,155	\$84,856	\$115,730	\$59,158	\$182,268	\$56,777	\$339,881	\$168,254	\$411,007	\$36,090	\$81,961
Total Depreciation	\$5,899,342	171,439	368,833	542,156	241,825	357,470	253,037	601,234	175,934	1,071,675	523,105	1,247,236	109,144	236,255
Allocated Indirect Costs														
General and Administrative	\$7,055,693	\$109,543	\$424,151	\$651,675	\$358,265	\$443,830	\$168,282	\$766,331	\$202,024	\$1,310,886	\$669,536	\$1,576,923	\$108,440	\$265,807
Operations	\$1,750,219	\$49,418	\$105,079	\$178,603	\$66,649	\$106,605	\$85,344	\$183,653	\$48,424	\$315,180	\$152,570	\$358,443	\$32,876	\$67,375
Vehicle Maintenance	\$3,005,558	\$84,862	\$180,447	\$306,706	\$114,452	\$183,068	\$146,556	\$315,377	\$83,155	\$541,242	\$262,001	\$615,535	\$56,457	\$115,700
Container Maintenance	\$1,039,517	\$24,496	\$65,768	\$98,350	\$48,414	\$66,242	\$26,055	\$116,165	\$28,456	\$189,410	\$92,124	\$230,061	\$16,168	\$37,806
Total Allocated Indirect Costs	\$12,850,988	\$268,320	\$775,445	\$1,235,334	\$587,780	\$799,745	\$426,237	\$1,381,525	\$362,060	\$2,356,718	\$1,176,231	\$2,780,962	\$213,941	\$486,689
Total Allocated Indirect Depreciation Costs	\$152,451	\$4,304	\$9,078	\$15,683	\$5,822	\$9,376	\$7,390	\$15,922	\$4,160	\$27,469	\$13,385	\$31,206	\$2,823	\$5,834
Annual Implementation Cost Amortization	\$187,175	\$5,639	\$11,084	\$17,649	\$7,966	\$10,926	\$9,895	\$18,175	\$5,635	\$34,408	\$16,040	\$38,607	\$3,470	\$7,682
Total Annual Cost of Operations ³	\$50,595,200	1,271,954	3,154,026	4,980,526	2,093,493	3,013,129	2,117,796	5,052,195	1,540,945	9,179,494	4,434,797	11,016,622	869,083	1,871,140
Profit	\$5,311,098	\$133,520	\$331,086	\$522,818	\$219,759	\$316,295	\$222,310	\$530,341	\$161,757	\$963,593	\$465,531	\$1,156,441	\$91,230	\$196,418
Operating Ratio	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%
Total Operating Cost	\$55,906,299	\$1,405,474	\$3,485,111	\$5,503,344	\$2,313,252	\$3,329,425	\$2,340,107	\$5,582,536	\$1,702,702	\$10,143,087	\$4,900,328	\$12,173,063	\$960,313	\$2,067,558
Contractor Pass-Through Costs														
Interest Expense	\$1,935,353	\$51,487	\$120,815	\$185,587	\$78,547	\$117,820	\$75,036	\$201,758	\$58,377	\$352,149	\$172,459	\$415,661	\$33,559	\$72,097
Interest Expense on Implementation Cost	\$63,894	\$1,718	\$3,772	\$6,404	\$2,726	\$3,781	\$2,950	\$6,259	\$1,987	\$11,832	\$5,475	\$13,544	\$1,078	\$2,368
Contract Changes to Specific Agencies	(\$435,254)	\$0	\$0	\$0	\$0	\$0	(\$453,384)	\$24,201	\$0	\$0	(\$6,071)	\$0	\$0	\$0
BASE COMPENSATION	\$57,470,292	\$1,458,679	\$3,609,698	\$5,695,334	\$2,394,526	\$3,451,025	\$1,964,709	\$5,814,754	\$1,763,066	\$10,507,068	\$5,072,191	\$12,602,268	\$994,950	\$2,142,023
Incentives and Disincentives	\$253,210	\$2,395	\$11,280	\$33,983	\$16,423	\$15,327	\$2,878	\$23,827	\$7,592	\$54,105	\$18,063	\$60,521	\$1,576	\$5,239
Total Contractor Adjustments	\$253,210	\$2,395	\$11,280	\$33,983	\$16,423	\$15,327	\$2,878	\$23,827	\$7,592	\$54,105	\$18,063	\$60,521	\$1,576	\$5,239
TOTAL CONTRACTOR'S COMPENSATION	\$57,723,502	\$1,461,074	\$3,620,978	\$5,729,318	\$2,410,949	\$3,466,353	\$1,967,587	\$5,838,582	\$1,770,658	\$10,561,173	\$5,090,254	\$12,662,789	\$996,526	\$2,147,262

1.1.3. Cost Adjustment Process

The 2015 Recology Compensation Application adjusts 2014 costs by applying the year-over-year changes in several United States Department of Labor indices. Additional cost adjustments have been made for ~~specific issues, the~~ 2013 Revenue Surplus/Shortfall, interest payments due to/from Recology and 2013 ~~compensation and~~ performance incentive/disincentive payments. In addition, several Agencies have specific adjustments (i.e., the Town of Hillsborough, the City of San Carlos, and the City of Menlo Park – see page 16 for more information on this).

The percentage increase and ~~their source in explanation of~~ the various adjustments by cost categories used as the basis for the 2015 adjustment to Recology's compensation are provided in **Table C** on the following page.

Table C

<u>Cost Category</u>	<u>Cost Adjustment</u>	<u>Explanation</u>
CBA Wages (Drivers)	1.89%	The wages adjustment is based on the CPI index described in Table 1 of Attachment K.
CBA Benefits (Drivers)	1.89%	The benefits adjustment is based on the CPI index described in Table 1 of Attachment K.
Payroll Tax (Drivers)	1.89%	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2015; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance (Drivers)	1.97%	The workers compensation insurance adjustment is based on an index which increased 1.97%.
Depreciation – Collection Vehicles	0.0%	No adjustment in 2015.
Depreciation - Containers	0.0%	No adjustment in 2015.
CBA (Mechanics and Clerical) Wages and Benefits	1.89%	The wages and benefits adjustments are based on the CPI index described in Table 1 of Attachment K.
Non-CBA Labor	1.89%	The adjustment is based on the CPI index described in Table 1 of Attachment K.
Fuel	-2.60%	The Fuel expense is adjusted by the change in a fuel index of -2.60%.
Other Indirect	1.18%	The Other Indirect expense includes insurance, general office expense, safety, etc. Other Indirect expenses are adjusted by 80% of a CPI index change of 1.47%.

The flowchart provided as **Table D** illustrates graphically the cost adjustment process that is conducted each year.

Table D

SBWMA - CONTRACTOR COST ADJUSTMENT PROCESS					
<u>Collection and Shoreway Operations Contracts</u>					
2014 APPROVED COSTS (not actual costs)			ADJUSTMENT		2015 CONTRACTORS COMPENSATION
CBA (wages & benefits)		+	Index adjustment beginning Rate Year 2014	=	Base plus Adjustment
<hr style="border-top: 1px dashed black;"/>					
Other Cost		+	Index	=	Base plus Adjustment
<hr style="border-top: 1px dashed black;"/>					
Fuel		+	Index	=	Base plus Adjustment
<hr style="border-top: 1px dashed black;"/>					
Depreciation		+	No Change	=	Last Year's Depreciation
<hr style="border-top: 1px dashed black;"/>					
Allowable Profit					Profit calculated on total approved costs at Operating ratio in Proposal
<hr style="border-top: 1px dashed black;"/>					
Contractor Pass-Through Cost					
Interest			Interest is fixed on sliding scale based on final capital cost		Annual Interest Expense per Interest Schedule
<hr style="border-top: 1px dashed black;"/>					
Other			Actual cost; ie, regulatory fees, etc.		Actual Cost
<hr style="border-top: 1px dashed black;"/>					
2014 TOTAL BASE CONTRACTOR COMPENSATION		+	Total of all Costs Above	=	2015 TOTAL BASE CONTRACTOR COMPENSATION
<i>Note: The "CBA (wages & benefits)" row applies to the Collective Bargaining Agreements covering drivers, mechanics and clerical employees. Simplified - for illustration only.</i>					

The result of the Cost Adjustment Process is provided in **Table E** on page 13.

1.1.4. Direct Labor-Related Costs

Total Direct Labor and related costs increased by \$470,003 or 1.9%, from the approved 2014 costs. This change is the result of applying an increase for changes in indices, as described in Table 1 of Attachment K. The four specific costs that are adjusted which comprise the Direct Labor cost category increased as follows: 1) Wages for CBAs

\$298,841; 2) Benefits for CBAs \$118,940; 3) Payroll Taxes \$24,864; and 4) Workers Compensation \$27,359.

Payroll tax expense has increased by \$24,864 due to the increase in wages described above. The actual payroll tax rate is unchanged from 2014.

The final component of Direct Labor cost, Workers' Compensation expense, increased by 2.0% or \$27,359 as a result of applying the change in the Employment Cost Index.

1.1.5. Direct Fuel Costs

Direct Fuel Costs are adjusted based on the change in the Producer Price Index - Commodity Index for #2 diesel fuel. The adjustment for 2015 is a decrease of 2.6% or \$109,711 from 2014. In 2012, this index experienced a 25.55% increase which is indicative of the volatility of this index and the actual cost of fuel.

1.1.6. Other Direct Costs

Other Direct Costs are adjusted based on applying 80% of the change in a Federal Consumer Price Index. The result is an increase of 1.2% or \$25,083.

1.1.7. Depreciation on Collection Vehicles, Containers and Equipment

There is no cost adjustment for depreciation expense unless a change is approved to the base capital for trucks, containers and equipment. Therefore depreciation expense for Rate Year 2015 is the same as for Rate Year 2014.

1.1.8. Indirect Costs Excluding Depreciation

Allocated Indirect Costs Excluding Depreciation include overhead costs, as follows: General and Administrative costs, Operations (Supervisory) costs, Vehicle Maintenance costs and Container Maintenance costs. These overhead cost categories each include labor and related costs, fuel costs, and other costs. Each cost category is separately adjusted as explained above. Allocated Indirect Costs Excluding Depreciation, increased by 1.7% or \$211,321.

1.1.9. Annual Implementation Cost Amortization

The Implementation or start-up costs for Recology to roll-out the services are amortized over the ten year Term of the Franchise Agreements and are fixed costs. The annual cost is \$187,175 ~~and this cost shall be applied to Rate Year 2015.~~

1.1.10. Profit

Allowable Profit is calculated by applying the Operating Ratio (OR) of ninety and one-half percent (90.5%) to the Contractor's approved Total Annual Costs of Operations. The Total Annual Cost of Operations is not the actual cost of operations. The Total Annual Cost of Operations is determined by increasing the certain line items included in the prior year approved Total Costs of Operations by the index identified in Attachment K. The Total Contractor's Compensation for Rate Year 2015 is made up of annual approved increases added to the amounts originally included in Recology's 2008 RFP submittal.

The compensation for Total Annual Cost of Operations increased 1.2% or \$596,696 and is made up of the items discussed. Applying the prescribed OR to the Total Annual Cost of Operations results in an increase in Profit for 2015 of 1.2%, or \$62,637.

1.1.11. Contractor Pass-Through Costs

Contractor Pass-Through Costs are made up of any new Regulatory Agency Fees, (no changes for 2015), Interest Expense (on capital purchases for trucks and equipment), and Interest Expense on Implementation Costs. Interest expense is adjusted based on the ten year debt service schedule approved at the start of the contract. Interest expense decreased by \$289,373 to \$1,935,353 for 2015. Interest on implementation costs decreased by \$9,604 to \$63,894.

Table E

	Compensation - 2014	Compensation - 2015	Change	% Change
Annual Cost of Operations				
Direct Labor-Related Costs				
Wages for CBAs	15,788,215	16,087,056	298,841	1.9%
Benefits for CBAs	6,283,751	6,402,691	118,940	1.9%
Payroll Taxes	1,313,579	1,338,443	24,864	1.9%
Workers Compensation Insurance	1,390,582	1,417,940	27,359	2.0%
Total Direct Labor Related-Costs	24,776,127	25,246,130	470,003	1.9%
Direct Fuel Costs	4,218,052	4,108,341	(109,711)	-2.6%
Other Direct Costs	2,125,690	2,150,774	25,083	1.2%
Depreciation				
- Collection Vehicles	4,016,792	4,016,792	-	0.0%
- Containers	1,882,550	1,882,550	-	0.0%
Total Depreciation	5,899,342	5,899,342	-	0.0%
Allocated Indirect Costs				
General and Administrative	6,943,824	7,055,693	111,868	1.6%
Operations	1,720,794	1,750,219	29,426	1.7%
Vehicle Maintenance	2,951,711	3,005,558	53,847	1.8%
Container Maintenance	1,023,338	1,039,517	16,179	1.6%
Total Allocated Indirect Costs	12,639,667	12,850,988	211,321	1.7%
Total Allocated Indirect Depreciation Costs	152,451	152,451	-	0.0%
Annual Implementation Cost Amortization	187,175	187,175	-	0.0%
Total Annual Cost of Operations	49,998,504	50,595,200	596,696	1.2%
Profit	5,248,462	5,311,098	62,637	1.2%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	55,246,966	55,906,299	659,333	1.2%
Contractor Pass-Through Costs				
Regulatory Agency Fees	-	-	-	
Interest Expense	2,224,726	1,935,353	(289,373)	-13.0%
Interest Expense on Implementation Cost	73,498	63,894	(9,604)	-13.1%
Contract Changes to Specific Agencies	(431,332)	(435,254)	(3,922)	
Total Contractor Pass-Through Costs	1,866,892	1,563,993	(302,899)	-16.2%
BASE CONTRACTOR'S COMPENSATION	57,113,858	57,470,292	356,434	0.6%
Other Adjustments				
Incentive / Disincentives	472,171	253,210	(218,961)	
Total Other Adjustments	472,171	253,210	(218,961)	
TOTAL CONTRACTOR'S COMPENSATION	57,586,029	57,723,502	137,473	0.2%

1.2. SPECIFIC ISSUES FOR 2015

1.2.1. Performance Incentives and Disincentives

The Franchise Agreements prescribe numerous performance standards and also require Recology to compile information and submit monthly, quarterly and annual reports. The information and data contained in these reports are primarily self-reported by Recology. All of the Performance Incentives and Disincentives (Attachment I) with the exception of disincentives related to contamination, are self-reported by Recology. The incentives and disincentives self-reported by Recology are currently being audited and may be adjusted pending the results of the audit. The contamination related disincentives are calculated by the SBWMA and payment is remitted directly to the SBWMA so these amounts are not presented.

The ~~net~~ calculated ~~performance~~ ~~incentives/disincentives~~ Performance Incentives/Disincentives payment for 2013 (net of additional Liquidated Damages per the SBWMA audit) was an incentive payment to Recology of \$~~260~~253,210. **Table F** provides a breakdown by Member Agency.

The payment for Performance Incentives/Disincentives (net of additional Liquidated Damages per the SBWMA audit) to Recology for 2012 was \$472,171 (applied to 2014 rates); therefore, the compensation for Performance Incentives/Disincentives to Recology for 2013 (applied to 2015 rates) is reduced by \$218,961 from 2012.

Table F

Performance Incentive/Disincentive Payments 2013*						
Performance Incentives and Disincentives*						
Member Agency	SFD Missed P/U Events	Average Speed of Answer	90 Second Max Hold Time	Diversion	Additional Liquidated Damages	Net Incentives and Disincentives*
Atherton	\$192	(\$131)	\$0	(\$3,248)	\$792	(\$2,395)
Belmont	\$442	(\$484)	\$0	(\$12,029)	\$792	(\$11,280)
Burlingame	\$542	(\$1,365)	\$0	(\$33,951)	\$792	(\$33,983)
East Palo Alto	\$42	(\$667)	\$0	(\$16,589)	\$792	(\$16,423)
Foster City	\$142	(\$629)	\$0	(\$15,632)	\$792	(\$15,327)
Hillsborough	\$342	(\$155)	\$0	(\$3,856)	\$792	(\$2,878)
Menlo Park	\$442	(\$969)	\$0	(\$24,092)	\$792	(\$23,827)
North Fair Oaks	\$246	(\$318)	\$0	(\$7,916)	\$396	(\$7,592)
Redwood City	\$942	(\$2,158)	\$0	(\$53,680)	\$792	(\$54,105)
San Carlos	\$292	(\$740)	\$0	(\$18,407)	\$792	(\$18,063)
San Mateo	\$1,192	(\$2,416)	\$0	(\$60,088)	\$792	(\$60,521)
SM County	\$446	(\$235)	\$0	(\$5,845)	\$396	(\$5,239)
WBSD	\$42	(\$93)	\$0	(\$2,317)	\$792	(\$1,576)
Total	\$5,300	(\$10,360)	\$0	(\$257,650)	\$9,500	(\$253,210)
Negative number in parenthesis denotes Incentive payment due to Recology.						
*The payment calculated includes a reduction in reported SFD Missed P/U Events and additional Liquidated Damages delineated in the SBWMA audit of Recology's 2013 Annual Report approved by the SBWMA Board of Director's on June 26, 2014.						

1.3. MEMBER AGENCY SPECIFIC ISSUES

1.3.1. Town of Hillsborough Backyard Service Adjustment

In 2008, the Town of Hillsborough (Hillsborough) initiated a backyard collection fee designed to encourage Single Family Dwelling customers to bring their garbage carts to the curb for collection. As a result of the new fees imposed by Hillsborough, fewer customers requested backyard service. This decrease in backyard collection data was not reflected in Recology's 2008 proposal submittal. Since the data had changed from the time of RSMC's 2008 proposal submittal, Hillsborough requested that Recology review the data included in the proposal and update the assumptions to more accurately reflect the migration to curbside service.

Recology agreed that the decrease in backyard service should in fact reduce the estimated number of Route Hours and the number of Route Labor Hours (two key metrics for cost allocations) needed to service Hillsborough. Therefore, ~~RSMC~~Recology reduced Hillsborough's and the ~~SBWMA's other SBWMA Member Agencies~~ Total Single Family Dwelling (SFD) Route Labor Hours and Route Hours for Recyclable Materials, Compostable collection and Organic Materials collection. These changes were only made in the Town of Hillsborough and no other Member Agencies were affected by the changes.

The reduction in hours reduced the Total 2015 Contractor's Compensation for Hillsborough's Single Family Dwelling costs by \$433,191. ~~This amount can be found on page 7 in Table B.~~ slightly higher than last year, and is combined with the Greenwaste cost adjustment described in 1.3.4 below.

1.3.2. City of San Carlos Kitchen Pail Adjustment

A deduction will be made for the City of San Carlos which had already purchased their kitchen pails. ~~This cost~~ This cost of \$6,071, page 7 in Table B. will be deducted from Recology's compensation and is adjusted annually.

1.3.3. City of Menlo Park Billing Adjustment

The City of Menlo Park requested that Recology add the service of billing its customers who had previously been billed by the city. This cost of \$24,201, page 7 in Table B. will be added to Recology's compensation and adjusted annually.

1.3.4. Town of Hillsborough Used Green Waste Carts Adjustment

The Town of Hillsborough decided to use their previously owned organics containers and not purchase new ones. The cost of new carts in the amount of \$20,193 will be

deducted from Recology's compensation and is adjusted annually. This amount can be found on page 7 in Table B and is combined with the backyard service adjustment described in 1.3.1 above in a total of \$453,384.

As part of the agreement to use used green waste carts, the annual depreciation of any new carts requested by residents of Hillsborough would need to be added to Contractor's Compensation (10,278 for Rate Year 2015). The staff report for the July 12, 2010 town council agenda is included page 90 of Part 2. The residents have requested 2,061 new green waste carts since January 1, 2011. An additional depreciation schedule can be found on page 93 of Part 2.

1.3.5. City of Belmont Unique Franchise Agreement

Eleven of the twelve SBWMA Member Agency Franchise Agreements use the same compensation methodology to calculate the annual adjustment to the compensation paid to Recology. One Member Agency (i.e., City of Belmont) used a different compensation adjustment methodology; however, use of this different methodology does not impact the costs or services provided to the other eleven Member Agencies. Including the City of Belmont in the cost calculations with the other eleven Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Franchise Agreements.

1.3.6. West Bay Sanitary District Surplus/Shortfall Adjustments

In Rate Year 2012, the West Bay Sanitary District paid Recology using District funds to offset customer rates. This payment was intended to offset the anticipated rate shortfall in 2013. These funds were received by Recology in 2012 and booked as revenue in 2012. As these funds were intended to offset the 2013 anticipated shortfall, the result created a surplus of \$187,547 in the 2012 Revenue Reconciliation and a subsequent shortfall of \$174,328 in the 2013 Revenue Reconciliation. To smooth out the revenue surplus/shortfall issue created by timing of the payment of these funds, it was agreed in April 2014 that the 2012 surplus would be applied to the 2013 shortfall. The final result of these changes netted an Adjusted Surplus/(Shortfall) for Rate Year 2015 of \$14,775. As part of this adjustment, interest has also been recalculated on the combined balance for the past two years. The total interest for these two years is \$942. This adjustment is presented in **Table H** on page 21.

2. ANNUAL REVENUE RECONCILIATION

2.1. REVENUE RECONCILIATION FOR 2013 TO ACCOUNT FOR ANY SHORTFALL OR SURPLUS IN COMPENSATION PAID TO RECOLOGY

For rate years 2013 through 2020, there is an annual revenue reconciliation process to determine what net revenue Recology retained in compensation versus the amount actually owed to the company. The calculation compares gross revenue billed, less contractor paid Pass-Through expenses for agency fees and disposal expense at Shoreway, versus the approved Contractor's Compensation. This reconciliation of what was owed versus what was paid to Recology results in a surplus or shortfall owed to/from Recology by each Member Agency. The 2013 Revenue Reconciliation is submitted and reviewed in 2014 and the results are included in Recology's 2015 total compensation-adjustment. **Table G** illustrates how the revenue reconciliation process is conducted each year.

Table G

2013 REVENUE RECONCILIATION PROCESS	
January 1, 2013 ¹	December 31, 2013
Approved 2013 Recology Compensation	2013 Actual Revenue Billed
+↓	-↓
2013 <u>Estimated</u> Disposal Expense	2013 <u>Actual</u> Disposal ² Expense Paid to SBWMA
+↓	-↓
2013 <u>Estimated</u> Agency Fees	2013 <u>Actual</u> Agency Fees Paid to Agency
+↓	-↓
Prior Period Surplus/Shortfall	Approved 2013 Recology Compensation (no changes)
=↓	=↓
2013 Approved Revenue Requirement	<u>Actual</u> Revenue Surplus/Shortfall Applied to 2015 Rates
<p>¹ SBWMA Board approves Total Revenue Requirement in September for Member Agencies to set rates effective January 1.</p> <p>² Also includes Organics and Food Scraps Processing costs (tons by Member Agency x contractor rates/ton).</p>	

This surplus or shortfall will be added to or subtracted from the company's compensation for the subsequent rate year (2015) by Member Agency. The Recology 2013 Revenue Reconciliation Report was submitted on March 31, 2014 and ~~is currently~~ beinghas been audited by a third party firm hired by the SBWMA.

Included in the Revenue Reconciliation is a review of revenue received by Recology to provide backyard service. The Franchise Agreement identifies that revenues billed for providing backyard service for the first twenty percent (20%) of single family dwelling (SFD) customers is to be excluded from contractor's compensation. Currently, no

Member Agency has over 20% of their SFD customers subscribing to backyard service, Therefore, 100% of all backyard service revenue is credited back to the Member Agencies for Rate Year 2013.

The final Revenue Reconciliation Report for Rate Year 2013 ~~stated~~submitted by Recology on June 13, 2014 after the SBWMA audit was completed and provided to Recology for review, finds that Recology was undercompensated by \$1,281,336.~~The Revenue Reconciliation is currently being audited which may result in changes to the surplus or shortfall and could affect the calculation of including~~ interest ~~described in Section 2.2 below.~~ (Refer to page 21 for the Recology Revenue Reconciliation supporting documentations summary table.)

2.2. INTEREST ASSOCIATED WITH A SHORTFALL OR SURPLUS IN REQUIRED REVENUES

Section 11.07.B of the Franchise Agreement prescribes that interest shall be applied to any surplus or shortfall as calculated in the Revenue Reconciliation Report. The interest is applied to fifty percent (50%) of the difference during the Rate Year in which the difference in revenue occurred (Rate Year ~~2012~~2013) and one hundred percent (100%) of the difference during the immediately following Rate Year (Rate Year ~~2013~~2014). The interest rate is set at the prime rate plus one percent (1%). The prime rate in effect since December 16, 2008 is 3.25%. Therefore interest is calculated at 4.25%.

In March 2014, a Memorandum of Understanding (MOU) between Recology San Mateo County and the SBWMA was developed for Shortfall and Surplus amounts for Rate Year 2013 and beyond, ~~(see Part 2, page 86-).~~ This MOU described that shortfall amounts that are a result of a Member Agency setting rates lower than had been recommended by the SBWMA Board shall have interest applied as described in Section 11.07.B of the Franchise Agreement.

The MOU describes that no interest will be applied to shortfall or surplus amounts that were generated if the Member Agency set rates as recommended by the SBWMA Board. If a Member Agency sets rates above those recommended by the SBWMA Board and a surplus is generated, that Member Agency can have the amount of the surplus refunded to the Member Agency. The Refund must be requested in writing by July 31 of each year and Recology will comply with the request for refund in a reasonable time frame. If a Member Agency elects to have the surplus amount refunded, that surplus amount will not be subtracted from the company's compensation for the subsequent rate year as described in Section 2.1 above.

The interest to be charged or credited on the 2013 Revenue Reconciliation surplus/shortfall and included in the Rate Year 2014 Total Contractor's Compensation is included in **Table H**, page 21.

Table H

Recology San Mateo County Revenue Reconciliation and Interest Rate Year 2013														
	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	Member Agency Total
Gross Revenue Billed	\$ 3,140,420	6,444,463	10,653,855	4,688,953	5,277,965	3,513,653	10,316,892	2,533,242	17,916,862	8,354,577	21,927,777	1,525,802	3,078,201	99,372,662
Less:														
Pass-Through Costs	1,277,303	2,982,150	4,146,321	2,254,142	2,093,954	1,057,715	4,332,118	890,146	7,465,295	2,852,575	8,448,020	484,804	963,743	39,248,286
Unscheduled and Intermittent Services Excluding Agency Fees	18,921	67,918	94,380	51,234	22,402	7,034	122,974	27,264	54,779	79,391	312,950	15,136	18,910	893,293
Net Revenue Billed	1,844,196	3,394,395	6,413,154	2,383,577	3,161,609	2,448,904	5,861,800	1,615,832	10,396,788	5,422,611	13,166,807	1,025,862	2,095,548	59,231,083
Contractor's Compensation Agency Specific Contract Changes	1,390,581	3,656,499	5,644,000	2,252,939	3,479,863	1,883,350 (34,596)	5,976,300 23,601	1,697,655	10,598,199	5,340,463 (6,523)	12,431,010	1,085,680	2,070,059	57,506,598 (17,518)
Approved Contractor's Compensation 2011 (Surplus)/Shortfall	1,390,581 557,857	3,656,499 592,047	5,644,000 709,885	2,252,939 —	3,479,863 40,787	1,848,754 539,728	5,999,901 50,866	1,697,655 (89,107)	10,598,199 (292,478)	5,333,940 178,538	12,431,010 1,133,085	1,085,680 111,559	2,070,059 (84,662)	57,489,080 3,448,105
Interest on 2011 (Surplus)/Shortfall	35,563	35,478	42,540	—	2,444	32,343	3,048	(5,681)	(18,645)	10,699	72,234	2,951	(5,397)	207,577
Total Due Recology San Mateo County for Rate Year 2013	1,984,001	4,284,024	6,396,425	2,252,939	3,523,094	2,420,825	6,053,815	1,602,867	10,287,076	5,523,177	13,636,329	1,200,190	1,980,000	61,144,762
Specific 2011 Shortfall Billed in 2012						326,311								326,311
Surplus/(Shortfall) for Rate Year 2013	\$ (139,805)	(889,629)	16,729	130,638	(361,485)	354,390	(192,015)	12,965	109,712	(100,566)	(469,522)	(174,328)	115,548	(1,587,368)
2012 Calculated Surplus due to Balancing Account Funds Paid to Recology												187,547		187,547
2013 Food Waste Disposal Adjustment	3,084	5,897	24,530	4,336	27,986	2,518	41,593	4,669	34,917	9,204	35,837	1,556	1,885	198,010
Adjusted Surplus/(Shortfall) for Rate Year 2015	(136,721)	(883,732)	41,259	134,974	(333,499)	356,908	(150,422)	17,634	144,629	(91,362)	(433,685)	14,775	117,433	(1,201,811)
Interest to/from Recology	(1) (8,716)	(56,338)					(9,589)			(5,824)		942		(79,525)
TOTAL REVENUE RECONCILIATION	(145,437)	(940,070)	41,259	134,974	(333,499)	356,908	(160,011)	17,634	144,629	(97,186)	(433,685)	15,717	117,433	(1,281,336)
(1) Notes: In accordance with the Memorandum of Understanding, interest is applied to the shortfall between net revenue billed and the approved amount due Recology if rates are set below those recommended in the SBWMA report approved by the SBWMA Board. Interest is applied to 50% of the difference during the rate year in which the difference occurred (2013) because the difference occurs throughout the year and to 100% of the difference in the immediately following year (2014) because the difference exists the entire year. The interest applied to both years is the prime rate in effect when the SBWMA issued the report for that year plus one percent (1%). The prime rate has been 3.25% since December 16, 2008. Interest does not apply to a surplus.														
As described in Section 1.3.6, page 17, the surplus/shortfall for the West Bay Sanitary District for years 2012 and 2013 were combined including interest. Interest of \$11,956 on the calculated 2012 surplus is offset by the interest of \$11,014 on the 2013 shortfall and combines for a net amount of \$942.														

3. ALLOCATION OF COSTS TO THE MEMBER AGENCIES

3.1. EXPLANATION OF COST ALLOCATION PROCESS

The process to allocate Recology's cost equitably across all Member Agencies is prescribed in Article 11 and Attachment K of the Agreements. Recology's ~~ninesixteen~~ cost categories are allocated based on four operational statistics for each of the 17 service sectors specific to each Member Agency. These operational statistics are:

- Annual route labor hours
- Annual route hours
- Number of containers in service
- Number of customer accounts serviced

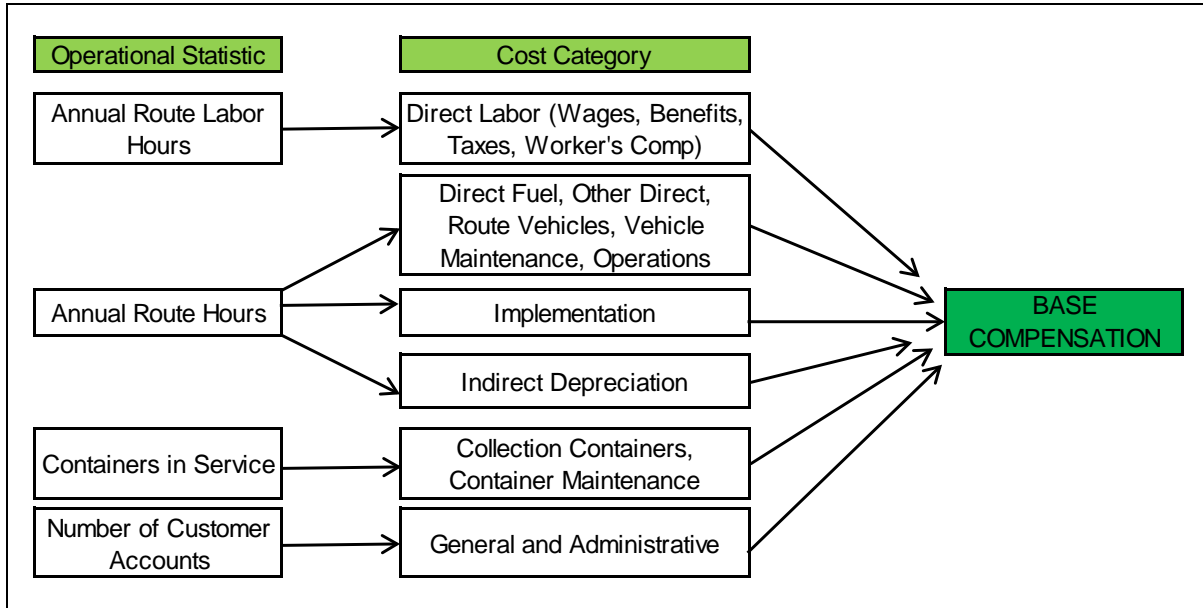
Recology conducted its Annual Route Assessment over a four week period in April and May 2014 to determine the statistics that will be applied to each Member Agency. A summary of the metrics used for the cost allocation process are provided in Appendix 1-1. Refer to Appendix 1-2 and Appendix 1-3 on pages 36 and 37 for two of the statistics comparing 2014 to 2015 data by Member Agency (route labor hours and route hours).

Table I details which operational statistics are applied to allocate each of the cost categories. **Table J** is a graphical representation of **Table I**.

Table I

<u>Cost Category</u>	<u>Operational Statistic</u>
COST OF OPERATIONS	
Wages for Direct Labor	Annual Route Labor Hours
Benefits for Direct Labor	Annual Route Labor Hours
Payroll Taxes	Annual Route Labor Hours
Worker's Compensation Expense	Annual Route Labor Hours
Direct Fuel Costs	Annual Route Hours
Other Direct Costs	Annual Route Hours
Route Vehicles	Annual Route Hours
Collection Containers	Containers in Service
Other	Annual Route Hours
INDIRECT COSTS	
General and Administrative	Number of Customer Accounts
Vehicle Maintenance	Annual Route Hours
Container Maintenance	Number of Containers in Service
Operations	Annual Route Hours
IMPLEMENTATION	Annual Route Hours
INDIRECT DEPRECIATION	Annual Route Hours

Table J



In an effort to illustrate how the cost allocation process is conducted, an example for the City of Menlo Park residential solid waste line of business is provided as **Table K** on page 25. The first section of this table outlines Menlo Park's share of the four operating statistics (i.e., number of accounts, total route labor hours per year, route hours per year and total containers in service.) The second section shows how the allocation of these operational statistics is applied to the cost categories (i.e., direct labor, direct fuel, etc.).

It is important to note that this process is conducted for seventeen lines of business (e.g., Single-Family solid waste, recycling, organics; Commercial/MFD solid waste, recycling, organics, etc.) and **Table K**, on page 25, only represents the calculation for one service sector (i.e., Single-Family Dwelling) in one line of business (i.e., Solid Waste collection service). **Table L**, on page 26, provides a list of all seventeen lines of business.

Table K

Example of Cost Allocation Calculation - 2015			
City of Menlo Park Allocated Cost for SFD, Solid Waste Line of Business			
			Statistics
1	# of Accounts - City		7,829
	# of Accounts - Total SBWMA		93,999
	<i>% of Accounts - City</i>		8.3%
2	Total Route Labor hours year - City		3,767
	Total Route Labor hours year - Total SBWMA		46,797
	<i>% Total Route Labor hours year - City</i>		8.1%
3	# of route hours/year - City		3,480
	# of route hours/year - Total SBWMA		42,960
	<i>% Total Route Labor hours year - City</i>		8.1%
4	Total Containers in Service - City		8,057
	Total Containers in Service - Total SBWMA		96,133
	<i>% Total Containers in Service - City</i>		8.4%
		a	b
		c	
Service Sector: SFD	Line of Business		
	Solid Waste	Solid Waste	Solid Waste
	SBWMA Total	% to MP	MP Cost Allocation
Annual Cost of Operations			(a x b)
Direct Labor-Related Costs			
Wages for CBAs	\$3,225,470	8.1%	\$259,670
Benefits for CBAs	\$1,276,255	8.1%	\$102,746
Payroll Taxes	\$268,359	8.1%	\$21,605
Workers Compensation Insurance	\$284,305	8.1%	\$22,888
Total Direct Labor Related-Costs	\$5,054,389		\$406,909
Direct Fuel Costs	\$804,044	8.1%	\$65,133
Other Direct Costs	\$400,529	8.1%	\$32,445
Depreciation - Collection Vehicles	\$803,031	8.1%	\$65,051
Depreciation - Containers	\$428,963	8.4%	\$35,952
Depreciation for Collection Equipment	\$1,231,994		\$101,003
Allocated Indirect Costs			
General and Administrative	\$1,323,444	8.3%	\$110,227
Operations	\$328,291	8.1%	\$26,594
Vehicle Maintenance	\$563,756	8.1%	\$45,668
Container Maintenance	\$194,983	8.4%	\$16,342
Total Allocated Indirect Costs	\$2,410,474		\$198,830
Total Allocated Indirect Depreciation Costs (Form 9)	\$28,295	8.1%	\$2,292
Annual Implementation Cost Amortization (Form A)	\$40,497	8.1%	\$3,281
Total Annual Cost of Operations	\$9,970,223		\$809,892
Profit (from Operating Ratio below)	\$1,046,598		\$85,016
	<i>90.5%</i>		<i>90.5%</i>
Total Costs before Pass-Through Cost	\$11,016,821		\$894,909
Contractor Pass-Through Costs			
Interest Expense	\$362,711	see note	\$29,736
Interest Expense on Implementation Cost	\$12,018	see note	\$974
Total Contractor Pass-Through Costs	\$374,729		\$30,710
BASE CONTRACTOR'S COMPENSATION - 2015	\$11,391,551		\$925,618
<i>Note: Interest Expense is allocated based on the % of each agency's depreciation expense to the total. Interest Expense on Implementation Cost is allocated based on route hours. Calculation is not shown above.</i>			

See Appendix 3-7, page 84 column A to trace the example identified in **Table K** to the Single-Family solid waste cost allocation to the actual Member Agency cost worksheet.

Table L

Attachment N Reference	<u>Line of Business</u>	<u>Service Sector</u>
A	Solid Waste (1)	Single-Family Residential
B	Recyclable Materials (2)	
C	Organic Materials (3)	
D	Weekly Battery and Cell Phone Collection (4)	
E	Weekly Used Motor Oil and Filters (5)	
F	Twice Annual Bulky Item Collection (6)	
E	Cart and Bin Solid Waste (7)	Commercial/MFD
F	Cart and Bin Recyclable Materials (8)	
G	Cart and Bin Organic Materials (9)	
H	Drop Box Solid Waste (10)	
H	Drop Box Recyclable Materials (11)	
H	Drop Box Organic Materials (12)	
J	Twice Annual Bulky Item Collection (13)	
E	Solid Waste (14)	Agency Facility
G	Organic Materials (15)	
I	Public Litter and Recycling Cans (16)	
I	Venues and Events (17)	

3.2. COST ALLOCATION VARIANCES FOR MEMBER AGENCIES

Total Contractor's Compensation is allocated each year based on the new operational statistics derived compiled from the annual route assessment conducted by Recology each year in April/May. Therefore, the percent of cost allocated to each Agency changes each year. **Table M** below shows the total cost allocation percent by Agency in 2014 and 2015, the allocation percentage difference, the total cost percent change, and the total cost variance attributed to the change in cost allocation percent.

Table M

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2014	2015	Difference %	Variance %	Difference \$
Atherton	2.60%	2.52%	-0.08%	-2.93%	\$ (44,002)
Belmont	6.33%	6.23%	-0.09%	-1.49%	\$ (54,449)
Burlingame	9.81%	9.84%	0.03%	0.30%	\$ 17,158
East Palo Alto	4.09%	4.14%	0.05%	1.15%	\$ 27,232
Foster City	6.27%	5.96%	-0.31%	-5.00%	\$ (181,804)
Hillsborough	4.18%	4.18%	0.00%	-0.01%	\$ (231)
Menlo Park	10.00%	10.00%	0.00%	-0.04%	\$ (2,523)
North Fair Oaks	2.93%	3.04%	0.12%	4.03%	\$ 68,376
Redwood City	17.66%	18.15%	0.48%	2.74%	\$ 280,071
San Carlos	9.00%	8.77%	-0.23%	-2.51%	\$ (130,907)
San Mateo	21.65%	21.76%	0.11%	0.53%	\$ 66,286
West Bay Sanitary	1.71%	1.72%	0.01%	0.44%	\$ 4,403
County of San Mateo	3.78%	3.70%	-0.09%	-2.26%	\$ (49,610)
Totals	100%	100%	0.00%	N/A	\$ (0)
Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.					
Year 2014 and 2015 percentages are shown rounded to two decimal places.					

The Total SBWMA year-over-year percentage change in the cost categories for the three service sectors (i.e., Residential, Commercial/Multi-Family and Member Agency Facilities) is provided as **Appendix 2-2**, page 41. For each Agency, the year-over-year changes in the main operational statistics are shown in the Agency Snapshot Summary table and the associated cost adjustments are provided in detail in **Appendix 3**. Additionally, the bottom of the Attachment N, Schedule B, shows the change in allocation in percent and cost by Line of Business (cost from allocation change only).

The primary factor that is attributable to the year-over-year cost ~~variances in~~ allocation variances is the number of labor hours used to service each Member Agency. Because

all Member Agencies comprise 100% of the total allocation of cost, a reduction or increase in the allocation of one Member Agency affects the other Member Agencies.

Changes in each Agency's percent of route hours results in changes in the allocation of costs which can be impacted by several possible factors. Allocation changes can be the result of changes in route drivers, changes in traffic patterns, changes in set-out locations for containers, new service time constraints due to noise, street sweeping, requested collection times, etc.

In looking at the change in statistics from one year to the next, it is important to point out that it is not just how one Member Agency's statistics change but how the Agency's statistics change in comparison to the total. For example, if an Agency has a 10% reduction in hours but the total SBWMA also has a 10% reduction, then the cost allocation percent to this Agency will not change. If an Agency has a 10% reduction but the total SBWMA has a 15% reduction, then the Agency will actually have a larger cost allocation percent than the previous year. So the Agency's statistical changes in comparison to the total are what really **affects** changes to the cost allocation percent. The tables in Appendix 1 provide a useful comparison of how each Member Agency statistics change in comparison to other Member Agencies and to the total SBWMA.

The following sections provide an explanation of the year-over-year variances in cost allocation for the specific Agencies as identified on page 27.

3.3. INDIVIDUAL MEMBER AGENCY VARIANCES

For Rate Year 2015, the Variance analysis focused on individual jurisdictions that had material changes of over 3% on the total of the Contractors Compensation cost allocation. Only two jurisdictions fell into that category. Those agencies are Foster City and North Fair Oaks (CSA 8). The following provides the explanation for these variances. The 3% benchmark is used as anything less than 3% could be driven by a variety of "soft factors". Factors such as traffic, relief driver impact, proper/improper set outs, and seasonality can attribute to variances of less than 3%. Of the eleven remaining jurisdictions who had less than a 3% variance, seven of them saw year over year reductions in their cost allocations while only two of the remaining four (Redwood City and East Palo Alto) had an increase of between 1% and 3% in their cost allocation.

Foster City

In Foster City, the Multi-Family Dwelling (MFD)/ Commercial Lines of Business (LOB) had the greatest change in Route Labor Hours and Route Hours compared to the prior year.

When ~~compared to~~comparing the allocation used for rate year 2014, the annual Route Labor Hours and Route Hours in MFD/Commercial Roll-off and Compactor LOB were reduced by over 44% due to less hauls during the audit period. Below is an example of some accounts that had a reduction in Compactor or Debris Box hauls, including on-call services and MFD Bulky Item Collections (BIC) during the four-week period in 2014 as compared to 2013:

<u>Account</u>	<u># of hauls in</u> <u>2014</u> 2013	<u># of hauls in</u> 2013 <u>2014</u>	<u>2014</u> 2013 vs. 2013 <u>2014</u>
Avalon Bay	04	<u>40</u>	-4
Isle Cove (BIC)	912	<u>69</u>	-3
Marina Point (BIC)	3	2	-1
Marina Green (BIC)	3	2	-1
Safeway	8	24	<u>-64</u>
Solar City	5	2	-3

Foster City also realized a significant reduction of containers in the MFD/Commercial Recycle LOB. This is due in part to increased container sizes, allowing for less frequent hauls. The number of cart based collections was reduced 9% as a result of consolidation into metal containers, which increased by 9%. This consolidation resulted in less service time required, which lowered the Route Labor Hours by 17.2%.

The same holds true for the MFD/Commercial Organics LOB. This is due in part to the consolidation of containers, which increases route efficiencies. The number of cart based collections was reduced by 9%, ~~where as~~whereas the bin collections increased 7.5%.— This consolidation resulted in less service time required, which lowered the Route labor Hours by 22%.

North Fair Oaks (CSA 8)

The Community of North Fair Oaks (NFO) experienced an overall cost allocation variance increase of ~~4.02~~03%, which equates to an increase of \$68,~~437.376~~ (per Table M). The largest part of this increase is attributed to the collection of MFD/Commercial service sector in Solid Waste, Recyclable, and the Organics lines of business (LOB)

where the allocated total costs increased \$55,000. of which \$50,000 is attributed to the change in cost allocation (Appendix 3-11). As an example, the MFD /Commercial Solid Waste LOB saw a cumulative increase in Route Labor Hours of 9291.2 hours or 5.98% year over year, which resulted in the NFO percentage of the total SBWMA MFD/Commercial increasing from 4.8% in 2014 to 5.1% in 2015. This was further magnified as total hoursRoute Labor Hours in this MFD/Commercial Solid Waste LOB decreased SBWMA wide in 2015 by 555 hours or 1.7%.

The increase in the MFD/Commercial sector can be attributed to a year over year increase in the number of collection lifts. Solid waste realized an increase of 546 lifts, recycling had an increase of 403 lifts, and organics saw an increase of 468 lifts. While there has not been a significant increase in tons, there has been a migration from bins to carts which was a factor in the increase in lifts. As an example, in 2014 solid waste bins realized a reduction of 3 bins while solid waste carts saw an increase of 40-12 from 458 for 2014 to 470 for 2015. Many of the smaller restaurants in the NFO area have space constraints so using carts within their facilities and then bringing them out for service certainly is beneficial to them however; it creates more lifts for Recology, which in turn leads to increases in route labor hours.

We have also seen an increase in frequency of service and new accounts. Some examples are:

<u>Account</u>	<u>2014 yards</u>	<u>2013 yards</u>	<u>2014 vs. 2013 yards</u>	<u>2014 vs. 2013 lifts</u>
523 Hampshire LLC	18	16	+2 (+104 annually)	+4 (+208 annually)
La Petite Baleen	1	0	+1 (+52 annually)	+1 (+52 annually)
Specialties Café	12	0	+12 (+624 annually)	+12 (+624 annually)
TOTAL	31	16	+15 (+780 annually)	+17 (+884 annually)

These three businesses account for a total of 884 additional lifts annually.

The same holds true for the MFD/Commercial Organics LOB. The NFO area also experienced an increase in MFD/Commercial Organics Service which increased its labor hours in this LOB by 20.4%-% as presented in Appendix 1-2, page 36. Not only have “lifts” increased (as stated above), we also have seen an increase in volume of the organic material from 275 cubic yards in 2014April 2013 to 365 cubic yards in 2015April

2014. A few examples of new organic starts are 3151 Edison, Ayar Produce, and Pena Meats which resulted in increased lifts and yardage.

The bottom line is that the time associated with the NFO increase in Member Agency allocation for all the MFD/Commercial LOB amounts to 40 minutes (more) per day when comparing 2013 to 2014. Customer service level changes, additional services, and/or container/cart placements all can effect collection service times and allocations.

The overall contractors compensation cost allocation variance over Rate Year 2014 created by the percentage increase in the NFO area and the percentage decrease (overall) in the SBWMA, and the fact that the NFO area is one of the smaller jurisdictions, increases the allocation to NFO regarding the overall SBWMA contractor compensation package. ~~AnAs an example of this would be a comparison of,~~ the ~~NFO cost~~ allocation ~~numbers as impact on NFO can be~~ compared to the City of San Mateo. NFO has a 0.12% increase in total cost allocation which increases their cost by \$68,376. However, because NFO has a percentage of small relative total cost, the total contractor's compensation increase/variance (from Rate Year 2014 impact to Rate Year 2015) of 0.12%. The NFO is a 4.03% increase in their total cost. Whereas, the City of San Mateo has an increase/variance in total cost allocation of 0.11%,% (\$66,286), which areis obviously a very similar numbers/percentages however, to the variance percentage increase in NFO is 4.02% and of total SBWMA cost. However, because of San Mateo's much higher total cost, the variance percentage increase for San Mateo is Mateo's total cost allocation is only 0.52%-53%.

3.4. OPERATIONAL INFORMATION FOR COST ALLOCATION

Operational information used to allocate Contractor's Compensation can be found in the following tables provided in **Appendix 1**:

- A summary of major statistics (Appendix 1-1)
- Number of Labor Hours by Line of Business (Appendix 1-2)
- Number of Route Hours by Line of Business (Appendix 1-3)
- Number of Containers in service by Line of Business (Appendix 1-4)
- Number of accounts by Line of Business and account type (i.e., Container size, Collection frequency, and material type) (Appendix 1-5)

All data provided is a result of the Annual Route Assessment conducted in April and May of 2013.

3.4.1. Annual Route Hours by Line of Business

Annual Route Hours by Line of Business identifies the time spent by each route servicing customers by Member Agency, Service Sector (i.e., Single-Family Dwelling, Multi-Family Dwelling, Commercial and Agency Facility), and Line of Business (e.g., solid waste collection, organic materials collection). This information was gathered over the 4 week period from April 14, 2014 to May 11, 2014 using the Route Time and Distance Reports from our Routeware System.

It should be noted that in order to optimize routing efficiencies we maintain some collection routes that include stops in the territory of more than one Member Agency. For such routes our data management systems (Routeware System) enable us to accurately identify route hours to the appropriate Member Agencies. In instances where Routeware was not available on an individual truck on an individual day, route hours for that route and that day from another week in the four week period were used.

Route Hours are made up of the hours route vehicles spend servicing the customers in each jurisdiction. Route Labor Hours includes the employee actual worked hours spent servicing customers in each jurisdiction as well as any off route time. Off route time, which includes paid breaks, pre and post trip inspection of vehicles as well as travel time to and from the route, is allocated to each jurisdiction based on that jurisdictions percentage of route time for each specific route each day. Additionally, certain commercial routes are two man routes and include 2 employees. In these cases, the route labor hours will be doubled to include both employees.

3.4.2. Annual Route Labor Hours by Line of Business

The annual route labor hours by line of business were generated by using information gathered during the four-week period from April 14, 2014 through May 11, 2014 using the daily "Route Time & Distance by Franchise" reports from our Routeware on-board computer system.

3.4.3. Number of Containers in Service by Line of Business

The Number of Containers in Service by Line of Business table is the number of containers, both carts and bins, located at active accounts at a point in time, that being May 9, 2014.

3.4.4. Number of Accounts by Line of Business

The number of accounts by line of business table is not an annualized report. This particular report represents active accounts at a point in time, which was May 9, 2014.

3.5. DESCRIPTION OF OTHER OPERATIONAL INFORMATION

The tables included in **Appendix 1** (Operational Information) of this Compensation Application include other data required in the Agreements. These tables ~~may~~ provide a breakdown of the data by Member Agency, Service Sector, and Line of Business.

For the complete list of statistical tables, see Part 2, section 1, including these same tables and additional statistical tables (e.g., list of vehicles, personnel, set-outs).

4. COST ADJUSTMENT CALCULATIONS IN TOTAL AND BY MEMBER AGENCY

The Franchise Agreement Attachment N, illustrates the calculation process to derive the actual total compensation adjustment and allocation to each Member Agency. A summary of the tables from the Attachment N adjustment process are found in **Appendix 2**.

As previously shown in **Section 1.1.11 Table E**, the table provided as **Appendix 2-1** shows the results of all the cost adjustments as previously described, in total for the combined SBWMA service area. In Appendix 2-1, each cost category is broken out with this year's cost, next year's cost, the dollar variance and the percent variance. In total, there was a 0.32% compensation adjustment including Performance Incentives/Disincentives.

Appendix 2-2 breaks out the Base Contractor's costs by line of business and shows an increase in compensation of 0.6% before special and one-time adjustments the Performance Incentives/Disincentives adjustment. Single Family collection costs increased by 0.6%, Commercial and Multi-Family costs increased by 0.7% and Agency Facilities costs increased by 0.5 %.

Appendix 2-3 shows the 2015 total costs including special and one-time adjustments by Agency. At the bottom of the table is a comparison to the 2014 total costs and the percentage change. The variance by Agency is primarily due to changes in the cost allocation percent versus last year and specific adjustments to individual Agencies.

Appendices 2-4, 2-5 and 2-6 provide the 2015 costs by line of business and service sector. Costs are adjusted and allocated at the level of detail shown in this table. At the bottom of each table is the 2014 total cost, the dollar change and the percentage change. The variance by service sector reflects changes in operating hours which impacts how the total cost is allocated.

Appendix 3 ~~is an example of the Attachment N cost adjustment~~ provides six tables for each Agency. ~~Included for each Member Agency is the:~~

1. Contractor's Base Compensation, – Detail
2. Contractor's Compensation by Service Sector,
3. Allocated Costs by Service Sector and Line of Business, and – SFD
4. Allocated Costs – MFD & Commercial
5. Allocated Costs – Agency Facilities

6. The Snapshot Report for the Member Agency.

~~Contractor's Base Compensation breaks out the Base Contractor's costs by line of business before special and one-time adjustments.~~

Contractor's Compensation by Service Sector shows the 2015 total costs including special and one-time adjustments by Agency. At the bottom of this table is a comparison to the 2014 total costs and the change in percentage. Also included at the bottom is a comparison of the total cost allocation by line of business for this year, next year, the dollar impact of the allocation change and the presentpercentage change. For example, on page 95, San Carlos had a 9.2% allocation of the 2014 Single Family Dwelling cost but 8.5% for 2015 with a 0.6% year-over-year allocation decrease. This decrease resulted in a cost allocation decrease of \$204,383. ~~This cost decrease was~~ Similarly, the Agency Facilities cost allocation declined 0.6%, or \$6,157. These cost decreases were offset by a 0.3% allocation increase in the Multi-Family and Commercial line of business, resulting in a cost allocation increase of \$79,689. The result was a total cost allocation decrease of 0.23% or \$130,850.

Allocated Costs by Service Sector and Line of Business provide the 2015 costs by line of business and service sector. Costs are adjusted and allocated at the levelseventeen lines of detailbusiness shown in ~~this table. At the these tables. For comparison purposes, at the~~ bottom of each tablecolumn is also the 2014 total cost, the dollar change and the percentage change. Provided at the top of each tablecolumn are the operational statistics and percent of the total attributed to that specific Agency for each ~~service sector-line of business.~~ The color coding denotes the statistic used to adjust each cost category

Member Agency Snapshot is a summary and comparison of the basic operating statistics and includes three years of data. It includes the four statistics used to allocate costs as described in Section 3 of this Application, as follows:

1. Number of Accounts
2. Total Route Labor hours
3. Total Route Hours
4. Total Number of Solid Waste Containers

APPENDIX B

SBWMA COMMENTS AND QUESTIONS ON RECOLOGY 2015 COMPENSATION APPLICATION WITH RECOLOGY'S RESPONSES TO PART II

SBWMA FINAL REPORT REVIEWING THE 2015 RECOLOGY COMPENSATION APPLICATION

September 18, 2014



July 8, 2014

SBWMA Questions and Comments to the Recology 2015 Application for an Adjustment to Contractor’s Compensation

The following provides the SBWMA’s questions and comments on Recology’s 2015 Compensation Application. After the SBWMA and Member Agencies submit their comments/questions to Recology which are due on July 8, 2014, Recology then prepares the final 2015 Compensation Application by July 30, 2014.

All questions/comments to **Part I** of the Application are provided in redline. Specific recommended deletions and additions are included directly in the text and comments are noted as “SBWMA Comments.”

The SBWMA questions/comments to **Part II** of the Application are provided separately at the end.

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EXECUTIVE SUMMARY

Overview of the Application

Recology San Mateo County (Recology) is pleased to submit our 2015 Application for a Contractor's Compensation Adjustment per Section 11.04 of the Franchise Agreements with the twelve South Bayside Waste Management Authority (SBWMA) Member Agencies. The format of this Application is similar to the prior year submittal, which had been modified, with the assistance of the SBWMA and feedback from Board members, in an effort to provide a more user friendly and easier to understand Application.

SBWMA Comment: Please provide an explanation of the contents of Part I and Part II and rationale to organize this Application into two parts.

Section 1 of this Application (Calculation of Contractor's Compensation for the 2015 Rate Year and Variance Analysis) explains the first step in calculating the annual adjustment to Recology's compensation. This section provides the results of our calculations and explains how the base compensation is adjusted using the indices prescribed in the Franchise Agreements. Also included are explanations on special issues such as Incentive and Disincentive payments and sections pertaining to several Member Agencies that have unique cost adjustments.

Section 2 (Annual 2013 Revenue Reconciliation) details the annual process to determine what net revenue Recology retained in compensation versus the amount actually owed to the company. This reconciliation of revenues billed by Recology calculates the surplus or shortfall due to/from each Member Agency for 2013.

Section 3 (Allocation of Costs to the Member Agencies) explains the second step which is process to allocate contractor's compensation across all Member Agencies equitably as prescribed in the Franchise Agreements. This section provides the details of the operational metrics used to allocate costs, the results of the cost allocation and explanations for the highest variances for the following agencies: Foster City and North Fair Oaks (CSA 8).

Section 4 (Cost Adjustment Calculations in Total and by Member Agency) consists of several Appendices which explains the overall results and provides statistical tables and various cost adjustment tables ~~a description of the tables in the Appendices~~. These tables provide a summary of the detailed calculations and steps taken to derive the compensation adjustment for 2015 by Member Agency.

Results of Index and Non-Indexed Based Cost Adjustments (Section 1)

Section 1 provides the results of the index and non-index based cost adjustments for the ~~twelve~~-~~eleven~~ cost categories which ranged from -2.6% (i.e., Fuel) to a 1.97% increase (i.e., Worker's Compensation Insurance). The ~~increase~~-~~changes~~ for the ~~12-11~~ cost categories can be seen on **Table C**, page 9. The total adjustment for index-based cost adjustments is a 1.2% increase in compensation before interest and incentives/disincentives adjustments.

Specific Issues for 2015 (Section 1)

Section 1.2 describes the specific issues for 2015 which include a calculation of performance incentives and disincentives ~~and Member Agency specific issues~~. The net performance incentive payment, which is lowered by performance disincentive payments, is calculated at ~~\$260,210~~\$253,210. The Member Agency specific issues are discussed in detail in Section 1.3.

Results of the 2013 Revenue Reconciliation (Section 2)

Recology issued its 2013 Revenue Reconciliation Report to the SBWMA and its Member Agencies on March 31, 2014, per Section 11.03 of the Franchise Agreement(s). The Revenue Reconciliation compares the amount owed to Recology to the amount paid to Recology by Member Agency. The result was a shortfall including interest due to Recology of ~~approximately~~ \$1,281,336 in 2013. The impact across the Member Agencies ranged from ~~a shortfalls~~ in the Cities of Belmont of \$940,070 and San Mateo of \$433,685 to a surplus in Hillsborough of \$356,908. The following table provides the results of the 2013 revenue reconciliation.

<u>Member Agency</u>	<u>2013 Surplus or (Shortfall)</u>	<u>Interest Due (to)/from Recology</u>	<u>Total</u>
Atherton	(\$136,721)	(\$8,716)	(\$145,437)
Belmont	(\$883,732)	(\$56,338)	(\$940,070)
Burlingame	\$41,259	\$0	\$41,259
East Palo Alto	\$134,974	\$0	\$134,974
Foster City	(\$333,499)	\$0	(\$333,499)
Hillsborough	\$356,908	\$0	\$356,908
Menlo Park	(\$150,422)	(\$9,589)	(\$160,011)
North Fair Oaks	\$17,634	\$0	\$17,634
Redwood City	\$144,629	\$0	\$144,629
San Carlos	(\$91,362)	(\$5,824)	(\$97,186)
City of San Mateo	(\$433,685)	\$0	(\$433,685)
West Bay Sanitary District	\$14,775	\$942	\$15,717
County of San Mateo	\$117,433	\$0	\$117,433
Total	(\$1,201,811)	(\$79,525)	(\$1,281,336)

SBWMA Comment: Please provide footnotes to the above table denoting that the interest for West Bay Sanitary District is combined for 2012 and 2013, and why. In addition, please provide an explanation via footnote why some Member Agencies with shortfalls (e.g., San Mateo and Foster City) have no interest due to Recology.

Results of the 2015 Cost Allocation (Section 3)

Section 3 provides the details of the allocation of total contractor collection costs to the Member Agencies. This cost allocation process resulted in year-over-year variances ranging from an increase in the North Fair Oaks of 4.03% or \$68,376 to a decrease in Foster City of 5.00% or \$181,804. The biggest driver-factor of the cost allocation is driver hours attributed to each Member Agency which can fluctuate for a variety of reasons. The following table provides the percentage and dollar variance in the allocation of total costs-compensation for 2015 compared to 2014.

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2014	2015	Difference %	Variance %	Difference \$
Atherton	2.60%	2.52%	-0.08%	-2.93%	\$ (44,002)
Belmont	6.33%	6.23%	-0.09%	-1.49%	\$ (54,449)
Burlingame	9.81%	9.84%	0.03%	0.30%	\$ 17,158
East Palo Alto	4.09%	4.14%	0.05%	1.15%	\$ 27,232
Foster City	6.27%	5.96%	-0.31%	-5.00%	\$ (181,804)
Hillsborough	4.18%	4.18%	0.00%	-0.01%	\$ (231)
Menlo Park	10.00%	10.00%	0.00%	-0.04%	\$ (2,523)
North Fair Oaks	2.93%	3.04%	0.12%	4.03%	\$ 68,376
Redwood City	17.66%	18.12%	0.45%	2.57%	\$ 263,299
San Carlos	9.00%	8.77%	-0.23%	-2.51%	\$ (130,907)
San Mateo	21.65%	21.76%	0.11%	0.53%	\$ 66,286
West Bay Sanitary	1.71%	1.72%	0.01%	0.44%	\$ 4,403
County of San Mateo	3.78%	3.73%	-0.06%	-1.50%	\$ (32,839)
Totals	100%	100%	0.00%	N/A	\$ (0)

Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.

Year 2014 and 2015 percentages are shown rounded to two decimal places.

2015 Total Adjustment to Contractor's Compensation (Section 4)

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2015 increased by 0.2%, or \$131,650 over the compensation approved for 2014. This total contractor's compensation adjustment for the SBWMA service area as a whole is summarized in the table on the next page.

	Costs - 2014	Costs - 2015	Change	% Change
Total Annual Cost of Operations	49,998,504	50,595,200	596,696	1.2%
Profit	5,248,462	5,311,098	62,637	1.2%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	55,246,966	55,906,299	659,333	1.2%
Total Contractor Pass-Through Costs	1,881,778	1,566,056	(315,722)	-16.8%
BASE CONTRACTOR'S COMPENSATION	57,128,744	57,472,355	343,611	0.6%
Other Adjustments				
Incentive / Disincentives	472,171	260,210	(211,961)	
Total Other Adjustments	-	-	-	
TOTAL CONTRACTOR'S COMPENSATION	57,600,915	57,732,565	131,650	0.2%

SBWMA Comment: Please change the heading in the above table from “costs” to “compensation” and make a similar improvement to other tables.

This table provides the year-over-year comparison of the percentage change in total Contractor’s Compensation paid to Recology for collection services. **These figures do not include disposal and processing costs, franchise fees or the annual Revenue Reconciliation surplus/shortfall.**

1. CALCULATION OF CONTRACTOR'S COMPENSATION FOR THE 2015 RATE YEAR AND VARIANCE ANALYSIS

1.1. ANNUAL ADJUSTMENT TO CONTRACTOR'S BASE COMPENSATION

The process to adjust Recology's compensation entails several steps ~~which as follows and is~~ explained in detail in ~~subsequent sections of~~ this report.

The first step is to adjust the prior year's costs by the various indices prescribed in the Franchise Agreements (refer to section 1.1.3.). ~~A-The~~ second step is to add specific adjustments to the Base Contractor's Compensation. These include Incentive/Disincentive payment owed to/from Recology and other specific adjustments that may arise in the normal course of this contract. ~~A-The~~ final step is to calculate the Surplus/Shortfall due to/from Recology for the prior year's compensation. Since this is a revenue issue and not a cost issue, it is dealt with separately in this report (refer to Section 2).

1.1.1. Overview of Annual Contractor's Compensation Adjustment

The annual compensation adjustment ~~for Recology~~process is prescribed in the Member Agency Franchise Agreements in Article 11 (Contractor's Compensation, Pass-Through Costs and Rates), Attachment K (Contractor's Compensation and Rate Setting Process) and Attachment N (Contractor's Compensation and Rate Setting Statistics). Article 11 provides an overview of the compensation methodology. Attachment K explains the detailed process and specific rules used to adjust the various cost categories and the allocation of costs to the Member Agencies. The tables that comprise Attachment N are used to calculate the specific cost adjustments prescribed in Attachment K. Therefore, the process to annually adjust Contractor's Compensation is implemented by following the provisions in Article 11, Attachment K and Attachment N.

1.1.2. Total Contractor's Compensation Adjustment

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2015 increased by 0.2%, or \$131,650, to \$57,732,565 over the compensation approved for 2014. This total cost adjustment for the SBWMA service area as a whole is summarized in **Table A** below.

Table A

	Costs - 2014	Costs - 2015	Change	% Change
Total Annual Cost of Operations	49,998,504	50,595,200	596,696	1.2%
Profit	5,248,462	5,311,098	62,637	1.2%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	55,246,966	55,906,299	659,333	1.2%
Total Contractor Pass-Through Costs	1,881,778	1,566,056	(315,722)	-16.8%
BASE CONTRACTOR'S COMPENSATION	57,128,744	57,472,355	343,611	0.6%
Other Adjustments				
Incentive / Disincentives	472,171	260,210	(211,961)	
Total Other Adjustments	-	-	-	
TOTAL CONTRACTOR'S COMPENSATION	57,600,915	57,732,565	131,650	0.2%

The adjusted Total Contractor's Compensation for each Agency is provided in **Table B** on the next page.

Please note that the figures in the above **Table A** and **Table B** do not include disposal and processing costs, franchise fees or the annual revenue reconciliation. **Table A** and **Table B** only pertain to Recology's Base Compensation.

Table B

BASE COLLECTION COSTS	2015 Costs													
	2015Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$16,087,056	\$414,595	\$1,020,799	\$1,646,504	\$636,448	\$932,795	\$712,942	\$1,536,427	\$510,138	\$2,893,651	\$1,374,805	\$3,559,930	\$272,181	\$575,842
Benefits for CBAs	\$6,402,691	\$167,403	\$408,493	\$642,608	\$254,504	\$369,708	\$288,632	\$605,643	\$204,565	\$1,152,120	\$548,074	\$1,419,205	\$109,047	\$232,688
Payroll Taxes	\$1,338,443	\$34,494	\$84,930	\$136,989	\$52,952	\$77,609	\$59,317	\$127,831	\$42,443	\$240,752	\$114,384	\$296,186	\$22,645	\$47,910
Workers Compensation Insurance	\$1,417,940	\$36,543	\$89,975	\$145,125	\$56,098	\$82,218	\$62,840	\$135,423	\$44,965	\$255,051	\$121,178	\$313,778	\$23,991	\$50,756
Total Direct Labor Related-Costs	\$25,246,130	\$653,035	\$1,604,198	\$2,571,226	\$1,000,002	\$1,462,329	\$1,123,731	\$2,405,324	\$802,111	\$4,541,575	\$2,158,441	\$5,589,100	\$427,863	\$907,195
Direct Fuel Costs	\$4,108,341	\$112,349	\$252,785	\$388,665	\$164,734	\$245,162	\$198,179	\$412,827	\$125,956	\$745,870	\$358,875	\$870,347	\$74,177	\$158,415
Other Direct Costs	\$2,150,774	\$56,869	\$132,603	\$209,814	\$85,363	\$128,121	\$99,327	\$217,189	\$65,088	\$390,421	\$188,719	\$459,164	\$37,665	\$80,428
Depreciation														
- Collection Vehicles	\$4,016,792	\$113,022	\$244,835	\$378,001	\$156,970	\$241,740	\$193,880	\$418,966	\$119,157	\$730,348	\$354,851	\$836,229	\$73,054	\$155,740
- Containers	\$1,882,550	\$58,416	\$123,998	\$164,155	\$84,856	\$115,730	\$89,158	\$182,268	\$56,777	\$339,881	\$168,254	\$411,007	\$36,090	\$81,961
Total Depreciation	\$5,899,342	171,439	368,833	542,156	241,825	357,470	253,037	601,234	175,934	1,070,229	523,105	1,247,236	109,144	237,701
Allocated Indirect Costs														
General and Administrative	\$7,055,693	\$109,543	\$424,151	\$651,675	\$358,265	\$443,830	\$168,282	\$766,331	\$202,024	\$1,310,886	\$669,536	\$1,576,923	\$108,440	\$265,807
Operations	\$1,750,219	\$49,418	\$105,079	\$178,603	\$66,649	\$106,605	\$85,344	\$183,653	\$48,424	\$314,520	\$152,570	\$358,443	\$32,876	\$68,036
Vehicle Maintenance	\$3,005,558	\$84,862	\$180,447	\$306,706	\$114,452	\$183,068	\$146,556	\$315,377	\$83,155	\$540,108	\$262,001	\$615,535	\$56,457	\$116,834
Container Maintenance	\$1,039,517	\$24,496	\$65,768	\$98,350	\$48,414	\$66,242	\$26,055	\$116,165	\$28,456	\$189,410	\$92,124	\$230,061	\$16,168	\$37,806
Total Allocated Indirect Costs	\$12,850,988	\$268,320	\$775,445	\$1,235,334	\$587,780	\$799,745	\$426,237	\$1,381,525	\$362,060	\$2,354,923	\$1,176,231	\$2,780,962	\$213,941	\$488,484
Total Allocated Indirect Depreciation Costs	\$152,451	\$4,304	\$9,078	\$15,683	\$5,822	\$9,376	\$7,390	\$15,922	\$4,160	\$27,411	\$13,385	\$31,206	\$2,823	\$5,892
Annual Implementation Cost Amortization	\$187,175	\$5,639	\$11,084	\$17,649	\$7,966	\$10,926	\$9,895	\$18,175	\$5,635	\$34,404	\$16,040	\$38,607	\$3,470	\$7,686
Total Annual Cost of Operations ³	\$50,595,200	1,271,954	3,154,026	4,980,526	2,093,493	3,013,129	2,117,796	5,052,195	1,540,945	9,164,833	4,434,797	11,016,622	869,083	1,885,801
Profit	\$5,311,098	\$133,520	\$331,086	\$522,818	\$219,759	\$316,295	\$222,310	\$530,341	\$161,757	\$962,054	\$465,531	\$1,156,441	\$91,230	\$197,957
Operating Ratio	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%
Total Operating Cost	\$55,906,299	\$1,405,474	\$3,485,111	\$5,503,344	\$2,313,252	\$3,329,425	\$2,340,107	\$5,582,536	\$1,702,702	\$10,126,888	\$4,900,328	\$12,173,063	\$960,313	\$2,083,758
Contractor Pass-Through Costs														
Interest Expense	\$1,935,353	\$51,487	\$120,815	\$185,587	\$78,547	\$117,820	\$75,036	\$201,758	\$58,377	\$351,579	\$172,459	\$415,661	\$33,559	\$72,668
Interest Expense on Implementation Cost	\$63,894	\$1,718	\$3,772	\$6,404	\$2,726	\$3,781	\$2,950	\$6,259	\$1,987	\$11,830	\$5,475	\$13,544	\$1,078	\$2,370
Contract Changes to Specific Agencies	(\$433,191)	\$0	\$0	\$0	\$0	\$0	(\$433,191)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
BASE COMPENSATION	\$57,472,355	\$1,458,679	\$3,609,698	\$5,695,334	\$2,394,526	\$3,451,025	\$1,984,902	\$5,790,553	\$1,763,066	\$10,490,296	\$5,078,262	\$12,602,268	\$994,950	\$2,158,795
Incentives and Disincentives	\$260,210	\$2,979	\$11,863	\$34,566	\$17,006	\$15,911	\$3,461	\$24,411	\$7,884	\$54,688	\$18,647	\$61,104	\$2,160	\$5,530
Total Contractor Adjustments	\$260,210	\$2,979	\$11,863	\$34,566	\$17,006	\$15,911	\$3,461	\$24,411	\$7,884	\$54,688	\$18,647	\$61,104	\$2,160	\$5,530
TOTAL CONTRACTOR'S COMPENSATION	\$57,732,565	\$1,461,658	\$3,621,561	\$5,729,900	\$2,411,532	\$3,466,936	\$1,988,363	\$5,814,964	\$1,770,950	\$10,544,984	\$5,096,909	\$12,663,372	\$997,110	\$2,164,325

SBWMA Comment: Please revise Table B above to include the other Member Agency specific cost adjustments in the “Contract Changes to Specific Agencies” row. These cost adjustments are referenced in Section 1.3 and apply to San Carlos, Menlo Park and Hillsborough.

1.1.3. Cost Adjustment Process

The 2015 Recology Compensation Application adjusts 2014 costs by applying the year-over-year changes in several United States Department of Labor indices. Additional cost adjustments have been made for ~~specific issues, the~~ 2013 Revenue Surplus/Shortfall, interest payments due to/from Recology and 2013 ~~compensation and~~ performance incentive/disincentive payments. In addition, several Agencies have specific adjustments (i.e., the Town of Hillsborough, the City of San Carlos, and the City of Menlo Park – see page 16 for more information on this).

The percentage increase and ~~their source in explanation of~~ the various adjustments by cost categories used as the basis for the 2015 adjustment to Recology’s compensation are provided in **Table C** on the following page.

Table C

<u>Cost Category</u>	<u>Cost Adjustment</u>	<u>Explanation</u>
Direct Labor:		
CBA Wages (Drivers)	1.89%	The CBA expired October 23,2013. Therefore the wage adjustment is based on the CPI index described in Table 1 of Attachment K.
CBA Benefits (Drivers)	1.89%	The CBA expired October 23,2013. Therefore the wage adjustment is based on the CPI index described in Table 1 of Attachment K.
Payroll Tax (Drivers)	1.89%	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2015; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance (Drivers)	1.97%	The workers compensation insurance adjustment is based on an index which increased 1.97%.
Depreciation – Collection Vehicles	0.0%	No adjustment in 2015.
Depreciation - Containers	0.0%	No adjustment in 2015.
INDIRECT COSTS:	1.70%	Total indirect costs increased by 1.70%
		The Indirect Cost components are detailed below:
CBA Mechanics Wages and Benefits	1.89%	The CBA expired October 23,2013. Therefore the wage adjustment is based on the CPI index described in Table 1 of Attachment K.
CBA Clerical Wages and Benefits	1.89%	The CBA expired October 23,2013. Therefore the wage adjustment is based on the CPI index described in Table 1 of Attachment K.
Non-CBA Labor	1.89%	The CBA expired October 23,2013. Therefore the wage adjustment is based on the CPI index described in Table 1 of Attachment K.
Fuel	-2.60%	The Fuel expense is adjusted by the change in a fuel index of -2.60%.
Other Indirect	1.18%	The Other Indirect expense includes insurance, general office expense, safety, etc. Other Indirect expenses are adjusted by 80% of a CPI index change of 1.47%.

SBWMA Comment: Please simplify the above table by combining the two “CBA Mechanics Wages and Benefits” and “CBA Clerical Wages and Benefits” rows into one and label it appropriately. Please omit reference to the “October 23, 2013” expiration

date in these rows. In addition, please omit the Indirect Cost row, as fuel is both a direct and indirect cost.

The flowchart provided as **Table D** illustrates graphically the cost adjustment process that is conducted each year.

Table D

SBWMA - CONTRACTOR COST ADJUSTMENT PROCESS					
Collection and Shoreway Operations Contracts					
2014 APPROVED COSTS (not actual costs)			ADJUSTMENT		2015 CONTRACTORS COMPENSATION
CBA (wages & benefits)	+		Index adjustment beginning Rate Year 2014	=	Base plus Adjustment
CBA Mechanics	+		Index	=	Base plus Adjustment
Other Cost	+		Index	=	Base plus Adjustment
Fuel	+		Index	=	Base plus Adjustment
Depreciation	+		No Change	=	Last Year's Depreciation
Allowable Profit					Profit calculated on total approved costs at Operating ratio in Proposal
Contractor Pass-Through Cost					
Interest			Interest is fixed on sliding scale based on final capital cost		Annual Interest Expense per Interest Schedule
Other			Actual cost; ie, regulatory fees, etc.		Actual Cost
2014 TOTAL BASE CONTRACTOR COMPENSATION	+		Total of all Costs Above	=	2015 TOTAL BASE CONTRACTOR COMPENSATION
<i>Note: Simplified - for illustration only.</i>					

SBWMA Comment: Please omit the "CBA Mechanics" row in the above table. Please also reference via footnote that the "CBA (wages & benefits)" row applies to three

specific Collective Bargaining Agreement's (CBA) and list them (i.e., drivers, mechanics and clerical).

The result of the Cost Adjustment Process is provided in **Table E** on page 13.

1.1.4. Direct Labor-Related Costs

Total Direct Labor and related costs increased by \$470,003 or 1.9%, from the approved 2014 costs. This change is the result of applying an increase for changes in indices, as described in Table 1 of Attachment K. The four specific costs that are adjusted which comprise the Direct Labor cost category increased as follows: 1) Wages for CBAs \$298,841; 2) Benefits for CBAs \$118,940; 3) Payroll Taxes \$24,864; and 4) Workers Compensation \$27,359.

Payroll tax expense has increased by \$24,864 due to the increase in wages described above. The actual payroll tax rate is unchanged from 2014.

The final component of Direct Labor cost, Workers' Compensation expense, increased by 2.0% or \$27,359 as a result of applying the change in the Employment Cost Index.

1.1.5. Direct Fuel Costs

Direct Fuel Costs are adjusted based on the change in the Producer Price Index - Commodity Index for #2 diesel fuel. The adjustment for 2015 is a decrease of 2.6% or \$109,711 from 2014. In 2012, this index experienced a 25.55% increase which is indicative of the volatility of this index and the actual cost of fuel.

1.1.6. Other Direct Costs

Other Direct Costs are adjusted based on applying 80% of the change in a Federal Consumer Price Index. The result is an increase of 1.2% or \$25,083.

1.1.7. Depreciation on Collection Vehicles, Containers and Equipment

There is no cost adjustment for depreciation expense unless a change is approved to the base capital for trucks, containers and equipment. Therefore depreciation expense for Rate Year 2015 is the same as for Rate Year 2014.

1.1.8. Indirect Costs Excluding Depreciation

Allocated Indirect Costs Excluding Depreciation include overhead costs, as follows: General and Administrative costs, Operations (Supervisory) costs, Vehicle Maintenance costs and Container Maintenance costs. These overhead cost categories each include labor and related costs, fuel costs, and other costs. Each cost category is separately

adjusted as explained above. Allocated Indirect Costs Excluding Depreciation, increased by 1.7% or \$211,321.

1.1.9. Annual Implementation Cost Amortization

The Implementation or start-up costs for Recology to roll-out the services are amortized over the ten year Term of the Franchise Agreements and are fixed costs. The annual cost is \$187,175 ~~and this cost shall be applied to Rate Year 2015.~~

1.1.10. Profit

Allowable Profit is calculated by applying the Operating Ratio (OR) of ninety and one-half percent (90.5%) to the Contractor's approved Total Annual Costs of Operations. The Total Annual Cost of Operations is not the actual cost of operations. The Total Annual Cost of Operations is determined by increasing the certain line items included in the prior year approved Total Costs of Operations by the index identified in Attachment K. The Total Contractor's Compensation for Rate Year 2015 is made up of annual approved increases added to the amounts originally included in Recology's 2008 RFP submittal.

The compensation for Total Annual Cost of Operations increased 1.2% or \$596,696 and is made up of the items discussed. Applying the prescribed OR to the Total Annual Cost of Operations results in an increase in Profit for 2015 of 1.2%, or \$62,637.

1.1.11. Contractor Pass-Through Costs

Contractor Pass-Through Costs are made up of any new Regulatory Agency Fees (no changes for 2015), Interest Expense (on capital for trucks and equipment purchases), and Interest Expense on Implementation Costs. Interest expense is adjusted based on the ten year debt service schedule approved at the start of the contract. Interest expense decreased by \$289,373 to \$1,935,353 for 2015. Interest on implementation costs decreased by \$9,604 to \$63,894.

Table E

	Costs - 2014	Costs - 2015	Change	% Change
Annual Cost of Operations				
Direct Labor-Related Costs				
Wages for CBAs	15,788,215	16,087,056	298,841	1.9%
Benefits for CBAs	6,283,751	6,402,691	118,940	1.9%
Payroll Taxes	1,313,579	1,338,443	24,864	1.9%
Workers Compensation Insurance	1,390,582	1,417,940	27,359	2.0%
Total Direct Labor Related-Costs	24,776,127	25,246,130	470,003	1.9%
Direct Fuel Costs	4,218,052	4,108,341	(109,711)	-2.6%
Other Direct Costs	2,125,690	2,150,774	25,083	1.2%
Depreciation				
- Collection Vehicles	4,016,792	4,016,792	-	0.0%
- Containers	1,882,550	1,882,550	-	0.0%
Total Depreciation	5,899,342	5,899,342	-	0.0%
Allocated Indirect Costs				
General and Administrative	6,943,824	7,055,693	111,868	1.6%
Operations	1,720,794	1,750,219	29,426	1.7%
Vehicle Maintenance	2,951,711	3,005,558	53,847	1.8%
Container Maintenance	1,023,338	1,039,517	16,179	1.6%
Total Allocated Indirect Costs	12,639,667	12,850,988	211,321	1.7%
Total Allocated Indirect Depreciation Costs	152,451	152,451	-	0.0%
Annual Implementation Cost Amortization	187,175	187,175	-	0.0%
Total Annual Cost of Operations	49,998,504	50,595,200	596,696	1.2%
Profit	5,248,462	5,311,098	62,637	1.2%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	55,246,966	55,906,299	659,333	1.2%
Contractor Pass-Through Costs				
Regulatory Agency Fees	-	-	-	
Interest Expense	2,224,726	1,935,353	(289,373)	-13.0%
Interest Expense on Implementation Cost	73,498	63,894	(9,604)	-13.1%
Contract Changes to Specific Agencies	(416,446)	(433,191)	(16,745)	
Total Contractor Pass-Through Costs	1,881,778	1,566,056	(315,722)	-16.8%
BASE CONTRACTOR'S COMPENSATION	57,128,744	57,472,355	343,611	0.6%
Other Adjustments				
Incentive / Disincentives	472,171	260,210	(211,961)	
Total Other Adjustments	472,171	260,210	(211,961)	
TOTAL CONTRACTOR'S COMPENSATION	57,600,915	57,732,565	131,650	0.2%

1.2. SPECIFIC ISSUES FOR 2015

1.2.1. Performance Incentives and Disincentives

The Franchise Agreements prescribe numerous performance standards and also require Recology to compile information and submit monthly, quarterly and annual reports. The information and data contained in these reports are primarily self-reported by Recology. All of the Performance Incentives and Disincentives (Attachment I) with the exception of disincentives related to contamination, are self-reported by Recology. The incentives and disincentives self-reported by Recology are currently being audited and may be adjusted pending the results of the audit. The contamination related disincentives are calculated by the SBWMA and payment is remitted directly to the SBWMA so these amounts are not presented.

The ~~net~~-calculated ~~p~~Performance ~~i~~ncentives/~~d~~Disincentives payment for 2013 (net of additional Liquidated Damages per the SBWMA audit) was an incentive payment to Recology of ~~\$260,210~~\$253,210. **Table F** provides a breakdown by Member Agency. The payment for Performance Incentives/Disincentives (net of additional Liquidated Damages per the SBWMA audit) to Recology for 2012 was \$472,171 (applied to 2014 rates); therefore, the compensation for Performance Incentives/Disincentives to Recology for 2013 (applied to 2015 rates) is reduced by \$218,961 from 2012.

Table F

<u>Performance Incentive/Disincentive Payments 2013</u>					
	<u>Performance Incentives and Disincentives</u>				
<u>Member Agency</u>	<u>SFD Missed P/U Events</u>	<u>Average Speed of Answer</u>	<u>90 Second Max Hold Time</u>	<u>Diversion</u>	<u>Net Incentives and Disincentives</u>
Atherton	\$400	(\$131)	\$0	(\$3,248)	(\$2,979)
Belmont	\$650	(\$484)	\$0	(\$12,029)	(\$11,863)
Burlingame	\$750	(\$1,365)	\$0	(\$33,951)	(\$34,566)
East Palo Alto	\$250	(\$667)	\$0	(\$16,589)	(\$17,006)
Foster City	\$350	(\$629)	\$0	(\$15,632)	(\$15,911)
Hillsborough	\$550	(\$155)	\$0	(\$3,856)	(\$3,461)
Menlo Park	\$650	(\$969)	\$0	(\$24,092)	(\$24,411)
North Fair Oaks	\$350	(\$318)	\$0	(\$7,916)	(\$7,884)
Redwood City	\$1,150	(\$2,158)	\$0	(\$53,680)	(\$54,688)
San Carlos	\$500	(\$740)	\$0	(\$18,407)	(\$18,647)
San Mateo	\$1,400	(\$2,416)	\$0	(\$60,088)	(\$61,104)
SM County	\$550	(\$235)	\$0	(\$5,845)	(\$5,530)
WBSD	\$250	(\$93)	\$0	(\$2,317)	(\$2,160)
Total	\$7,800	(\$10,360)	\$0	(\$257,650)	(\$260,210)
Negative number in parenthesis denotes Incentive payment due to Recology.					

SBWMA Comment: Please revise the above Table F to denote a \$7,000 reduction in the Performance Incentive payment (net of additional Liquidated Damages) due to Recology per the Board's approval on June 26, 2014 of the SBWMA audit. Please provide an explanation of this adjustment via a footnote.

1.3. MEMBER AGENCY SPECIFIC ISSUES

SBWMA Comment: Similar to last year, the 2015 Application discusses the service changes and cost adjustments for three Member Agencies (i.e., San Carlos, Menlo Park and Hillsborough); however, while the detail was provided to the SBWMA only, it should also be included in the version shared with all Member Agencies. To ensure transparency, please include the cost adjustment and supporting documents should in the 2015 Application.

1.3.1. Town of Hillsborough Backyard Service Adjustment

In 2008, the Town of Hillsborough (Hillsborough) initiated a backyard collection fee designed to encourage Single Family Dwelling customers to bring their garbage carts to the curb for collection. As a result of the new fees imposed by Hillsborough, fewer customers requested backyard service. This decrease in backyard collection data was not reflected in Recology's 2008 proposal submittal. Since the data had changed from the time of RSMC's 2008 proposal submittal, Hillsborough requested that Recology review the data included in the proposal and update the assumptions to more accurately reflect the migration to curbside service.

Recology agreed that the decrease in backyard service should in fact reduce the estimated number of Route Hours and the number of Route Labor Hours (two key metrics for cost allocations) needed to service Hillsborough. Therefore, RecologySMC reduced Hillsborough's and the other SBWMA's Member Agencies Total Single Family Dwelling (SFD) Route Labor Hours and Route Hours for Recyclable Materials, Compostable collection and Organic Materials collection. These changes were only made in the Town of Hillsborough and no other Member Agencies were affected by the changes.

The reduction in hours reduced the Total 2015 Contractor's Compensation for Hillsborough's Single Family Dwelling costs by \$433,191, slightly higher than last year. This amount can be found on page 7 in **Table B**.

1.3.2. City of San Carlos Kitchen Pail Adjustment

A deduction will be made for the City of San Carlos which had already purchased their kitchen pails. This cost will be deducted from Recology's compensation and is adjusted annually.

SBWMA Comment: Please include the specific cost referenced above in the text and reference the section in this Application where it is denoted.

1.3.3. City of Menlo Park Billing Adjustment

The City of Menlo Park requested that Recology add the service of billing its customers who had previously been billed by the city. This cost will be added to Recology's compensation and adjusted annually.

SBWMA Comment: Please include the specific cost referenced above in the text and reference the section in this Application where it is denoted.

1.3.4. Town of Hillsborough Used Green Waste Carts Adjustment

The Town of Hillsborough decided to use their previously owned organics containers and not purchase new ones. The cost of new carts will be deducted from Recology's compensation and is adjusted annually.

SBWMA Comment: **SBWMA Comment:** Please include the specific cost referenced above in the text and reference the section in this Application where it is denoted.

In addition, the Recology 2015 Application includes a \$10,278 Depreciation cost for additional new carts apparently provided to Hillsborough; however, no supporting documentation is provided. (This is the first time this additional Depreciation expense has been charged to the Town.) Please provide the supporting documentation for this adjustment and confirmation from the Town that they concur with this new increase in compensation due to Recology.

1.3.5. City of Belmont Unique Franchise Agreement

Eleven of the twelve SBWMA Member Agency Franchise Agreements use the same compensation methodology to calculate the annual adjustment to the compensation paid to Recology. One Member Agency (i.e., City of Belmont) used a different compensation adjustment methodology; however, use of this different methodology does not impact the costs or services provided to the other eleven Member Agencies. Including the City of Belmont in the cost calculations with the other eleven Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Franchise Agreements.

1.3.6. West Bay Sanitary District Surplus/Shortfall Adjustments

In Rate Year 2012, the West Bay Sanitary District paid Recology using District funds to offset customer rates. This payment was intended to offset the anticipated rate shortfall in 2013. These funds were received by Recology in 2012 and booked as revenue in 2012. As these funds were intended to offset the 2013 anticipated shortfall, the result created a surplus of \$187,547 in the 2012 Revenue Reconciliation and a subsequent shortfall of \$174,328 in the 2013 Revenue Reconciliation. To smooth out the revenue surplus/shortfall issue created by timing of the payment of these funds, it was agreed in April 2014 that the 2012 surplus would be applied to the 2013 shortfall. The final result of these changes netted an Adjusted Surplus/(Shortfall) for Rate Year 2015 of \$14,775.

As part of this adjustment, interest has also been recalculated on the combined balance for the past two years. The total interest for these two years is \$942. This adjustment is presented in **Table H** on page 21.

2. ANNUAL REVENUE RECONCILIATION

2.1. REVENUE RECONCILIATION FOR 2013 TO ACCOUNT FOR ANY SHORTFALL OR SURPLUS IN COMPENSATION PAID TO RECOLOGY

For rate years 2013 through 2020, there is an annual revenue reconciliation process to determine what net revenue Recology retained in compensation versus the amount actually owed to the company. The calculation compares gross revenue billed, less contractor paid Pass-Through expenses for agency fees and disposal expense at Shoreway, versus the approved Contractor's Compensation. This reconciliation of what was owed versus what was paid to Recology results in a surplus or shortfall owed to/from Recology by each Member Agency. The 2013 Revenue Reconciliation is submitted and reviewed in 2014 and the results are included in Recology's 2015 total compensation. **Table G** illustrates how the revenue reconciliation process is conducted each year.

Table G

2013 REVENUE RECONCILIATION PROCESS	
January 1, 2013 ¹	December 31, 2013
Approved 2013 Recology Compensation	2013 Actual Revenue Billed
+↓	-↓
2013 <u>Estimated</u> Disposal Expense	2013 <u>Actual</u> Disposal ² Expense Paid to SBWMA
+↓	-↓
2013 <u>Estimated</u> Agency Fees	2013 <u>Actual</u> Agency Fees Paid to Agency
+↓	-↓
Prior Period Surplus/Shortfall	Approved 2013 Recology Compensation (no changes)
=↓	=↓
2013 Approved Revenue Requirement	<u>Actual</u> Revenue Surplus/Shortfall Applied to 2015 Rates
<p>¹ SBWMA Board approves Total Revenue Requirement in September for Member Agencies to set rates effective January 1.</p> <p>² Also includes Organics and Food Scraps Processing costs (tons by Member Agency x contractor rates/ton).</p>	

This surplus or shortfall will be added to or subtracted from the company's compensation for the subsequent rate year (2015) by Member Agency. The Recology 2013 Revenue Reconciliation Report was submitted on March 31, 2014 and ~~is currently being audited~~ has been audited by a third party firm hired by the SBWMA.

Included in the Revenue Reconciliation is a review of revenue received by Recology to provide backyard service. The Franchise Agreement identifies that revenues billed for providing backyard service for the first twenty percent (20%) of single family dwelling (SFD) customers is to be excluded from contractor's compensation. Currently, no

Member Agency has over 20% of their SFD customers subscribing to backyard service, Therefore, 100% of all backyard service revenue is credited back to the Member Agencies for Rate Year 2013.

The final Revenue Reconciliation Report for Rate Year 2013 submitted by Recology on June 13, 2014 after the SBWMA audit was completed and provided to Recology for review, finds that Recology was undercompensated by \$1,281,336 including interest. ~~The Revenue Reconciliation is currently being audited which may result in changes to the surplus or shortfall and could affect the calculation of interest described in Section 2.2 below.~~ (Refer to page 21 for the Recology Revenue Reconciliation supporting documentations summary table.)

2.2. INTEREST ASSOCIATED WITH A SHORTFALL OR SURPLUS IN REQUIRED REVENUES

Section 11.07.B of the Franchise Agreement prescribes that interest shall be applied to any surplus or shortfall as calculated in the Revenue Reconciliation Report. The interest is applied to fifty percent (50%) of the difference during the Rate Year in which the difference in revenue occurred (Rate Year ~~2012~~2013) and one hundred percent (100%) of the difference during the immediately following Rate Year (Rate Year ~~2013~~2014). The interest rate is set at the prime rate plus one percent (1%). The prime rate in effect since December 16, 2008 is 3.25%. Therefore interest is calculated at 4.25%.

In March 2014, a Memorandum of Understanding (MOU) between Recology San Mateo County and the SBWMA was developed for Shortfall and Surplus amounts for Rate Year 2013 and beyond, (see Part 2, page 86). This MOU described that shortfall amounts that are a result of a Member Agency setting rates lower than had been recommended by the SBWMA Board shall have interest applied as described in Section 11.07.B of the Franchise Agreement.

The MOU describes that no interest will be applied to shortfall or surplus amounts that were generated if the Member Agency set rates as recommended by the SBWMA Board. If a Member Agency sets rates above those recommended by the SBWMA Board and a surplus is generated, that Member Agency can have the amount of the surplus refunded to the Member Agency. The Refund must be requested in writing by July 31 of each year and Recology will comply with the request for refund in a reasonable time frame. If a Member Agency elects to have the surplus amount refunded, that surplus amount will not be subtracted from the company's compensation for the subsequent rate year as described in Section 2.1 above.

The interest to be charged or credited on the 2013 Revenue Reconciliation surplus/shortfall and included in the Rate Year 2014 Total Contractor's Compensation is included in **Table H**, page 21.

SBWMA Comment: Similar to the comment provided under the table in the "Executive Summary" section titled "Results of the 2013 Revenue Reconciliation (Section 2)," please provide an explanation via a footnote to Table H of how interest is handled for West Bay Sanitary District in this Application. Specifically, please explain that West Bay Sanitary District's interest as represented is calculated by reversing the 2012 reported interest of \$11,956 and that the 2013 interest is calculated on the net of the 2012 surplus balance and the 2013 shortfall balance. The result is that the combined interest for 2012 and 2013 is \$942.

Table H

Recology San Mateo County														
Revenue Reconciliation and Interest														
Rate Year 2013														
	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	Member Agency Total
Gross Revenue Billed	\$ 3,140,420	6,444,463	10,653,855	4,688,953	5,277,965	3,513,653	10,316,892	2,533,242	17,916,862	8,354,577	21,927,777	1,525,802	3,078,201	99,372,662
Less:														
Pass-Through Costs	1,277,303	2,982,150	4,146,321	2,254,142	2,093,954	1,057,715	4,332,118	890,146	7,465,295	2,852,575	8,448,020	484,804	963,743	39,248,286
Unscheduled and Intermittent Services Excluding Agency Fees	18,921	67,918	94,380	51,234	22,402	7,034	122,974	27,264	54,779	79,391	312,950	15,136	18,910	893,293
Net Revenue Billed	1,844,196	3,394,395	6,413,154	2,383,577	3,161,609	2,448,904	5,861,800	1,615,832	10,396,788	5,422,611	13,166,807	1,025,862	2,095,548	59,231,083
Contractor's Compensation	1,390,581	3,656,499	5,644,000	2,252,939	3,479,863	1,883,350	5,976,300	1,697,655	10,598,199	5,340,463	12,431,010	1,085,680	2,070,059	57,506,598
Agency Specific Contract Changes						(34,596)	23,601			(6,523)				(17,518)
Approved Contractor's Compensation	1,390,581	3,656,499	5,644,000	2,252,939	3,479,863	1,848,754	5,999,901	1,697,655	10,598,199	5,333,940	12,431,010	1,085,680	2,070,059	57,489,080
2011 (Surplus)/Shortfall	557,857	592,047	709,885	—	40,787	539,728	50,866	(89,107)	(292,478)	178,538	1,133,085	111,559	(84,662)	3,448,105
Interest on 2011 (Surplus)/Shortfall	35,563	35,478	42,540	—	2,444	32,343	3,048	(5,681)	(18,645)	10,699	72,234	2,951	(5,397)	207,577
Total Due Recology San Mateo County for Rate Year 2013	1,984,001	4,284,024	6,396,425	2,252,939	3,523,094	2,420,825	6,053,815	1,602,867	10,287,076	5,523,177	13,636,329	1,200,190	1,980,000	61,144,762
Specific 2011 Shortfall Billed in 2012						326,311								326,311
Surplus/(Shortfall) for Rate Year 2013	\$ (139,805)	(889,629)	16,729	130,638	(361,485)	354,390	(192,015)	12,965	109,712	(100,566)	(469,522)	(174,328)	115,548	(1,587,368)
2012 Calculated Surplus due to Balancing Account Funds Paid to Recology												187,547		187,547
2013 Food Waste Disposal Adjustment	3,084	5,897	24,530	4,336	27,986	2,518	41,593	4,669	34,917	9,204	35,837	1,556	1,885	198,010
Adjusted Surplus/(Shortfall) for Rate Year 2015	(136,721)	(883,732)	41,259	134,974	(333,499)	356,908	(150,422)	17,634	144,629	(91,362)	(433,685)	14,775	117,433	(1,201,811)
Interest to/from Recology	(8,716)	(56,338)					(9,589)			(5,824)		942		(79,525)
TOTAL REVENUE RECONCILIATION	(145,437)	(940,070)	41,259	134,974	(333,499)	356,908	(160,011)	17,634	144,629	(97,186)	(433,685)	15,717	117,433	(1,281,336)

3. ALLOCATION OF COSTS TO THE MEMBER AGENCIES

3.1. EXPLANATION OF COST ALLOCATION PROCESS

The process to allocate Recology's cost equitably across all Member Agencies is prescribed in Article 11 and Attachment K of the Agreements. Recology's ~~nine~~sixteen cost categories are allocated based on four operational statistics for each of the 17 service sectors specific to each Member Agency. These operational statistics are:

- Annual route labor hours
- Annual route hours
- Number of containers in service
- Number of customer accounts serviced

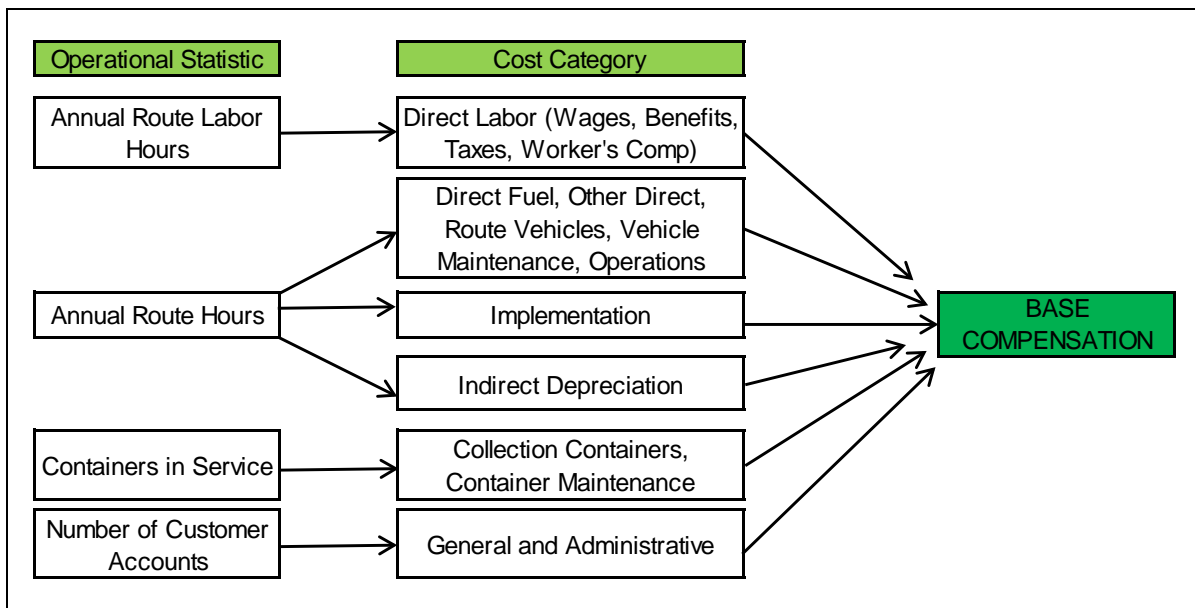
Recology conducted its Annual Route Assessment over a four week period in April and May 2014 to determine the statistics that will be applied to each Member Agency. A summary of the metrics used for the cost allocation process are provided in Appendix 1-1. Refer to Appendix 1-2 and Appendix 1-3 on pages 36 and 37 for two of the statistics comparing 2014 to 2015 data by Member Agency (route labor hours and route hours).

Table I details which operational statistics are applied to allocate each of the cost categories. **Table J** is a graphical representation of **Table I**.

Table I

	<u>Cost Category</u>	<u>Operational Statistic</u>
COST OF OPERATIONS		
	Wages for Direct Labor	Annual Route Labor Hours
	Benefits for Direct Labor	Annual Route Labor Hours
	Payroll Taxes	Annual Route Labor Hours
	Worker's Compensation Expense	Annual Route Labor Hours
	Direct Fuel Costs	Annual Route Hours
	Other Direct Costs	Annual Route Hours
	Route Vehicles	Annual Route Hours
	Collection Containers	Containers in Service
	Other	Annual Route Hours
INDIRECT COSTS		
	General and Administrative	Number of Customer Accounts
	Vehicle Maintenance	Annual Route Hours
	Container Maintenance	Number of Containers in Service
	Operations	Annual Route Hours
IMPLEMENTATION		Annual Route Hours
INDIRECT DEPRECIATION		Annual Route Hours

Table J



In an effort to illustrate how the cost allocation process is conducted, an example for the City of Menlo Park residential solid waste line of business is provided as **Table K** on page 25. The first section of this table outlines Menlo Park's share of the four operating statistics (i.e., number of accounts, total route labor hours per year, route hours per year and total containers in service.) The second section shows how the allocation of these operational statistics is applied to the cost categories (i.e., direct labor, direct fuel, etc.).

It is important to note that this process is conducted for seventeen lines of business (e.g., Single-Family solid waste, recycling, organics; Commercial/MFD solid waste, recycling, organics, etc.) and **Table K**, on page 25, only represents the calculation for one service sector (i.e., Single-Family Dwelling) in one line of business (i.e., Solid Waste collection service). **Table L**, on page 26, provides a list of all seventeen lines of business.

Table K

Example of Cost Allocation Calculation - 2015			
City of Menlo Park Allocated Cost for SFD, Solid Waste Line of Business			
			Statistics
1	# of Accounts - City		7,829
	# of Accounts - Total SBWMA		93,999
	% of Accounts - City		8.3%
2	Total Route Labor hours year - City		3,767
	Total Route Labor hours year - Total SBWMA		46,797
	% Total Route Labor hours year - City		8.1%
3	# of route hours/year - City		3,480
	# of route hours/year - Total SBWMA		42,960
	% Total Route Labor hours year - City		8.1%
4	Total Containers in Service - City		8,057
	Total Containers in Service - Total SBWMA		96,133
	% Total Containers in Service - City		8.4%
		a	b
			c
Service Sector: SFD	Line of Business		
	Solid Waste	Solid Waste	Solid Waste
	SBWMA Total	% to MP	MP Cost Allocation
Annual Cost of Operations			(a x b)
Direct Labor-Related Costs			
Wages for CBAs	\$3,225,470	8.1%	\$259,670
Benefits for CBAs	\$1,276,255	8.1%	\$102,746
Payroll Taxes	\$268,359	8.1%	\$21,605
Workers Compensation Insurance	\$284,305	8.1%	\$22,888
Total Direct Labor Related-Costs	\$5,054,389		\$406,909
Direct Fuel Costs	\$804,044	8.1%	\$65,133
Other Direct Costs	\$400,529	8.1%	\$32,445
Depreciation - Collection Vehicles	\$803,031	8.1%	\$65,051
Depreciation - Containers	\$428,963	8.4%	\$35,952
Depreciation for Collection Equipment	\$1,231,994		\$101,003
Allocated Indirect Costs			
General and Administrative	\$1,323,444	8.3%	\$110,227
Operations	\$328,291	8.1%	\$26,594
Vehicle Maintenance	\$563,756	8.1%	\$45,668
Container Maintenance	\$194,983	8.4%	\$16,342
Total Allocated Indirect Costs	\$2,410,474		\$198,830
Total Allocated Indirect Depreciation Costs (Form 9)	\$28,295	8.1%	\$2,292
Annual Implementation Cost Amortization (Form A)	\$40,497	8.1%	\$3,281
Total Annual Cost of Operations	\$9,970,223		\$809,892
Profit (from Operating Ratio below)	\$1,046,598		\$85,016
	90.5%	90.5%	90.5%
Total Costs before Pass-Through Cost	\$11,016,821		\$894,909
Contractor Pass-Through Costs			
Interest Expense	\$362,711	see note	\$29,736
Interest Expense on Implementation Cost	\$12,018	see note	\$974
Total Contractor Pass-Through Costs	\$374,729		\$30,710
BASE CONTRACTOR'S COMPENSATION - 2015	<u>\$11,391,551</u>		<u>\$925,618</u>
<i>Note: Interest Expense is allocated based on the % of each agency's depreciation expense to the total. Calculation is not shown above.</i>			

SBWMA Comment: Please correct the “Note” in Table K to denote that Interest on Implementation is allocated based on Route Hours.

See Appendix 3-7, page 84 column A to trace the example identified in **Table K** to the Single-Family solid waste cost allocation to the actual Member Agency cost worksheet.

Table L

<u>Attachment N Reference</u>	<u>Line of Business</u>	<u>Service Sector</u>
A	Solid Waste (1)	Single-Family Residential
B	Recyclable Materials (2)	
C	Organic Materials (3)	
D	Weekly Battery and Cell Phone Collection (4)	
E	Weekly Used Motor Oil and Filters (5)	
F	Twice Annual Bulky Item Collection (6)	
E	Cart and Bin Solid Waste (7)	Commercial/MFD
F	Cart and Bin Recyclable Materials (8)	
G	Cart and Bin Organic Materials (9)	
H	Drop Box Solid Waste (10)	
H	Drop Box Recyclable Materials (11)	
H	Drop Box Organic Materials (12)	
J	Twice Annual Bulky Item Collection (13)	
E	Solid Waste (14)	Agency Facility
G	Organic Materials (15)	
I	Public Litter and Recycling Cans (16)	

I	Venues and Events (17)	
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3.2. COST ALLOCATION VARIANCES FOR MEMBER AGENCIES

Total Contractor's Compensation is allocated each year based on the new operational statistics derived compiled from the annual route assessment conducted by Recology each year in April/May. Therefore, the percent of cost allocated to each Agency changes each year. **Table M** below shows the total cost allocation percent by Agency in 2014 and 2015, the allocation percentage difference, the total cost percent change, and the total cost variance attributed to the change in cost allocation percent.

Table M

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2014	2015	Difference %	Variance %	Difference \$
Atherton	2.60%	2.52%	-0.08%	-2.93%	\$ (44,002)
Belmont	6.33%	6.23%	-0.09%	-1.49%	\$ (54,449)
Burlingame	9.81%	9.84%	0.03%	0.30%	\$ 17,158
East Palo Alto	4.09%	4.14%	0.05%	1.15%	\$ 27,232
Foster City	6.27%	5.96%	-0.31%	-5.00%	\$ (181,804)
Hillsborough	4.18%	4.18%	0.00%	-0.01%	\$ (231)
Menlo Park	10.00%	10.00%	0.00%	-0.04%	\$ (2,523)
North Fair Oaks	2.93%	3.04%	0.12%	4.03%	\$ 68,376
Redwood City	17.66%	18.12%	0.45%	2.57%	\$ 263,299
San Carlos	9.00%	8.77%	-0.23%	-2.51%	\$ (130,907)
San Mateo	21.65%	21.76%	0.11%	0.53%	\$ 66,286
West Bay Sanitary	1.71%	1.72%	0.01%	0.44%	\$ 4,403
County of San Mateo	3.78%	3.73%	-0.06%	-1.50%	\$ (32,839)
Totals	100%	100%	0.00%	N/A	\$ (0)

Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.

Year 2014 and 2015 percentages are shown rounded to two decimal places.

The Total SBWMA year-over-year percentage change in the cost categories for the three service sectors (i.e., Residential, Commercial/Multi-Family and Member Agency Facilities) is provided as **Appendix 2-2**, page 41. For each Agency, the year-over-year changes in the main operational statistics are shown in the Agency Snapshot Summary table and the associated cost adjustments are provided in detail in **Appendix 3**. Additionally, the bottom of the Attachment N, Schedule B, shows the change in allocation in percent and cost by Line of Business (cost from allocation change only).

The primary factor that is attributable to the year-over-year cost allocation variances ~~in allocation~~ is the number of labor hours used to service each Member Agency. Because all Member Agencies comprise 100% of the total allocation of cost, a reduction or increase in the allocation of one Member Agency affects the other Member Agencies.

Changes in each Agency's percent of route hours results in changes in the allocation of costs which can be impacted by several possible factors. Allocation changes can be the result of changes in route drivers, changes in traffic patterns, changes in set-out locations for containers, new service time constraints due to noise, street sweeping, requested collection times, etc.

In looking at the change in statistics from one year to the next, it is important to point out that it is not just how one Member Agency's statistics change but how the Agency's statistics change in comparison to the total. For example, if an Agency has a 10% reduction in hours but the total SBWMA also has a 10% reduction, then the cost allocation percent to this Agency will not change. If an Agency has a 10% reduction but the total SBWMA has a 15% reduction, then the Agency will actually have a larger cost allocation percent than the previous year. So the Agency's statistical changes in comparison to the total are what really affects changes to the cost allocation percent. The tables in Appendix 1 provide a useful comparison of how each Member Agency statistics change in comparison to other Member Agencies and to the total SBWMA.

The following sections provide an explanation of the year-over-year variances in cost allocation for the specific Agencies as identified on page 27.

3.3. INDIVIDUAL MEMBER AGENCY VARIANCES

For Rate Year 2015, the Variance analysis focused on individual jurisdictions that had material changes of over 3% on the total of the Contractors Compensation cost allocation. Only two jurisdictions fell into that category. Those agencies are Foster City and North Fair Oaks (CSA 8). The following provides the explanation for these variances. The 3% benchmark is used as anything less than 3% could be driven by a variety of "soft factors". Factors such as traffic, relief driver impact, proper/improper set outs, and seasonality can attribute to variances of less than 3%. Of the eleven remaining jurisdictions who had less than a 3% variance, seven of them saw year over year reductions in their cost allocations while only two of the remaining four (Redwood City and East Palo Alto) had an increase of between 1% and 3% in their cost allocation.

Foster City

In Foster City, the Multi-Family Dwelling (MFD)/ Commercial Lines of Business (LOB) had the greatest change in Route Labor Hours and Route Hours compared to the prior year.

When ~~compared to~~ comparing the allocation used for rate year 2014, the annual Route Labor Hours and Route Hours in MFD/Commercial Roll-off and Compactor LOB were reduced by over 44% due to less hauls during the audit period. Below is an example of some accounts that had a reduction in Compactor or Debris Box hauls, including on-call services and MFD Bulky Item Collections (BIC) during the four-week period in 2014 as compared to 2013:

<u>Account</u>	<u># of hauls in 2014</u>	<u># of hauls in 2013</u>	<u>2014 vs. 2013</u>
Avalon Bay	0	4	-4
Isle Cove (BIC)	9	6	-3
Marina Point (BIC)	3	2	-1
Marina Green (BIC)	3	2	-1
Safeway	8	2	-6
Solar City	5	2	-3

SBWMA Comment: The text in the paragraph preceding this table note a “reduction” in hauls. However, the variance shown in the table appears to represent an increase in all but the first row (i.e., “Avalon Bay,” as the variance is presented erroneously in the remaining five rows). Please make the appropriate changes to this table and revise the above explanation.

Foster City also realized a significant reduction of containers in the MFD/Commercial Recycle LOB. This is due in part to increased container sizes, allowing for less frequent hauls. The number of cart based collections was reduced 9% as a result of consolidation into metal containers, which increased by 9%. This consolidation resulted in less service time required, which lowered the Route Labor Hours by 17.2%.

The same holds true for the MFD/Commercial Organics LOB. This is due in part to the consolidation of containers, which increases route efficiencies. The number of cart based collections was reduced by 9%, ~~where as~~ whereas the bin collections increased

7.5%. —This consolidation resulted in less service time required, which lowered the Route labor Hours by 22%.

North Fair Oaks (CSA 8)

The Community of North Fair Oaks (NFO) experienced an overall cost allocation variance increase of ~~4.02%~~4.03%, which equates to an increase of ~~\$68,137~~\$68,376 (per Table M). The largest part of this increase is attributed to the collection of MFD/Commercial service sector in Solid Waste, Recyclable, and the Organics lines of business (LOB) where the ~~allocated total~~ costs increased \$55,000 of which \$50,000 is attributed to the change in cost allocation (Appendix 3-11). As an example, the MFD /Commercial Solid Waste LOB saw a cumulative increase in Route Labor Hours of ~~92~~91.2 hours or ~~5.9%~~5.8% year over year, which resulted in the NFO percentage of the total SBWMA MFD/Commercial increasing from 4.8% in 2014 to 5.1% in 2015. This was further magnified as total ~~hours~~Route Labor Hours in this MFD/Commercial Solid Waste LOB decreased SBWMA wide in 2015 by 555 hours or 1.7%.

The increase in the MFD/Commercial sector can be attributed to a year over year increase in the number of collection lifts. Solid waste realized an increase of 546 lifts, recycling had an increase of 403 lifts, and organics saw an increase of 468 lifts. While there has not been a significant increase in tons, there has been a migration from bins to carts which was a factor in the increase in lifts. As an example, in 2014 solid waste bins realized a reduction of 3 bins while solid waste carts saw an increase of ~~10~~12. Many of the smaller restaurants in the NFO area have space constraints so using carts within their facilities and then bringing them out for service certainly is beneficial to them however; it creates more lifts for Recology, which in turn leads to increases in route labor hours.

SBWMA Comment: Please provide the specific reference to where the data showing the highlighted outcome in the preceding paragraph can be found in this Application.

We have also seen an increase in frequency of service and new accounts. Some examples are:

<u>Account</u>	<u>2014 yards</u>	<u>2013 yards</u>	<u>2014 vs. 2013 yards</u>	<u>2014 vs. 2013 lifts</u>
523 Hampshire LLC	18	16	+2 (+104 annually)	+4 (+208 annually)
La Petite Baleen	1	0	+1 (+52 annually)	+1 (+52 annually)

Specialties Café	12	0	+12 (+624 annually)	+12 (+624 annually)
TOTAL	31	16	+15 (+780 annually)	+17 (+884 annually)

SBWMA Comment: Please revise the above table to denote what “+104 annually” (etc.) means (i.e., 104 accounts?).

These three businesses account for a total of 884 additional lifts annually.

The same holds true for the MFD/Commercial Organics LOB. The NFO area also experienced an increase in MFD/Commercial Organics Service which increased its labor hours in this LOB by 20.4%. Not only have “lifts” increased (as stated above), we also have seen an increase in volume of the organic material from 275 cubic yards in 2014 to 365 cubic yards in 2015. A few examples of new organic starts are 3151 Edison, Ayar Produce, and Pena Meats which resulted in increased lifts and yardage.

The bottom line is that the time associated with the NFO increase in Member Agency allocation for all the MFD/Commercial LOB amounts to 40 minutes (more) per day when comparing 2013 to 2014. Customer service level changes, additional services, and/or container/cart placements all can effect collection service times and allocations.

SBWMA Comment: Please provide the specific references to where the data showing the highlighted outcome in the preceding two paragraphs can be found in this Application.

The overall contractors compensation cost allocation variance over Rate Year 2014 created by the percentage increase in the NFO area and the percentage decrease (overall) in the SBWMA, and the fact that the NFO area is one of the smaller jurisdictions, increases the allocation to NFO regarding the overall SBWMA contractor compensation package. ~~An example of this would be a comparison of the NFO allocation numbers as compared~~ As an example, the cost allocation impact on NFO can be compared to the City of San Mateo. ~~NFO has a percentage of the total contractor's compensation increase/variance (from Rate Year 2014 to Rate Year 2015) of 0.12%. NFO has a 0.12% increase in total cost allocation which increases their cost by \$68,376. However, because NFO has a small relative total cost, the impact to NFO is a 4.03% increase in their total cost. Whereas, The the City of San Mateo has an increase~~ variance in total cost allocation of 0.11% (\$66,286), which are-is obviously a very similar numbers/percentages to the increase of total SBWMA cost, however ~~However, because of San Mateo's much higher total cost, the variance percentage increase in NFO is 4.02% and the variance percentage increase for San Mateo's total cost allocation is only 0.52%~~ 0.53%.

3.4. OPERATIONAL INFORMATION FOR COST ALLOCATION

Operational information used to allocate Contractor's Compensation can be found in the following tables provided in **Appendix 1**:

- A summary of major statistics (Appendix 1-1)
- Number of Labor Hours by Line of Business (Appendix 1-2)
- Number of Route Hours by Line of Business (Appendix 1-3)
- Number of Containers in service by Line of Business (Appendix 1-4)
- Number of accounts by Line of Business and account type (i.e., Container size, Collection frequency, and material type) (Appendix 1-5)

All data provided is a result of the Annual Route Assessment conducted in April and May of 2013.

3.4.1. Annual Route Hours by Line of Business

Annual Route Hours by Line of Business identifies the time spent by each route servicing customers by Member Agency, Service Sector (i.e., Single-Family Dwelling, Multi-Family Dwelling, Commercial and Agency Facility), and Line of Business (e.g., solid waste collection, organic materials collection). This information was gathered over the 4 week period from April 14, 2014 to May 11, 2014 using the Route Time and Distance Reports from our Routeware System.

It should be noted that in order to optimize routing efficiencies we maintain some collection routes that include stops in the territory of more than one Member Agency. For such routes our data management systems (Routeware System) enable us to accurately identify route hours to the appropriate Member Agencies. In instances where Routeware was not available on an individual truck on an individual day, route hours for that route and that day from another week in the four week period were used.

SBWMA Comment: Please provide an explanation of the difference between Route Labor Hours and Route Hours to improve this section and perhaps alleviate any confusion since these two operational metrics are different.

3.4.2. Annual Route Labor Hours by Line of Business

The annual route labor hours by line of business were generated by using information gathered during the four-week period from April 14, 2014 through May 11, 2014 using the daily "Route Time & Distance by Franchise" reports from our Routeware on-board computer system.

3.4.3. Number of Containers in Service by Line of Business

The Number of Containers in Service by Line of Business table is the number of containers, both carts and bins, located at active accounts at a point in time, that being May 9, 2014.

3.4.4. Number of Accounts by Line of Business

The number of accounts by line of business table is not an annualized report. This particular report represents active accounts at a point in time, which was May 9, 2014.

3.5. DESCRIPTION OF OTHER OPERATIONAL INFORMATION

The tables included in **Appendix 1** (Operational Information) of this Compensation Application include other data required in the Agreements. These tables ~~may~~ provide a breakdown of the data by Member Agency, Service Sector, and Line of Business. For the complete list of statistical tables, see Part II, section 1, including these same tables and additional statistical tables (e.g., list of vehicles, personnel, set-outs).

4. COST ADJUSTMENT CALCULATIONS IN TOTAL AND BY MEMBER AGENCY

The Franchise Agreement Attachment N, illustrates the calculation process to derive the actual total compensation adjustment and allocation to each Member Agency. A summary of the tables from the Attachment N adjustment process are found in **Appendix 2**.

As previously shown in **Section 1.1.11 Table E**, the table provided as **Appendix 2-1** shows the results of all the cost adjustments as previously described, in total for the combined SBWMA service area. In Appendix 2-1, each cost category is broken out with this year's cost, next year's cost, the dollar variance and the percent variance. In total, there was a ~~0.3%~~0.2% compensation adjustment including Performance Incentives/Disincentives.

Appendix 2-2 breaks out the Base Contractor's costs by line of business and shows an increase in compensation of 0.6% before ~~special and one-time~~ the Performance Incentives/Disincentives adjustments. Single Family collection costs increased by 0.6%, Commercial and Multi-Family costs increased by 0.7% and Agency Facilities costs increased by 0.5 %.

Appendix 2-3 shows the 2015 total costs including special and one-time adjustments by Agency. At the bottom of the table is a comparison to the 2014 total costs and the percentage change. The variance by Agency is primarily due to changes in the cost allocation percent versus last year and specific adjustments to individual Agencies.

Appendices 2-4, 2-5 and 2-6 provide the 2015 costs by line of business and service sector. Costs are adjusted and allocated at the level of detail shown in this table. At the bottom of each table is the 2014 total cost, the dollar change and the percentage change. The variance by service sector reflects changes in operating hours which impacts how the total cost is allocated.

Appendix 3 ~~provides an example of six tables for each Agency:~~

- ~~1. the Attachment N cost adjustment tables for each Agency. Included for each Member Agency is the Contractor's Base Compensation – Detail~~
- ~~2. Contractor's Compensation by Service Sector~~
- ~~3. Allocated Costs – SFD~~
- ~~4. Allocated Costs – MFD & Commercial~~
- ~~5. Allocated Costs – Agency Facilities~~

~~6. by Service Sector and Line of Business, and~~ The Snapshot Report for the Member Agency.

~~Contractor's Base Compensation breaks out the Base Contractor's costs by line of business before special and one-time adjustments.~~

Contractor's Compensation by Service Sector shows the 2015 total costs including special and one-time adjustments by Agency. At the bottom of this table is a comparison to the 2014 total costs and the change in percentage. Also included at the bottom is a comparison of the total cost allocation by line of business for this year, next year, the dollar impact of the allocation change and the present percentage change. For example, on page 95, San Carlos had a 9.2% allocation of the 2014 Single Family Dwelling cost but 8.5% for 2015 with a 0.6% year-over-year allocation decrease. This decrease resulted in a cost allocation decrease of \$204,383. Similarly, the Agency Facilities cost allocation declined 0.6%, or \$6,157. This-These cost decreases was-were offset by a 0.3% allocation increase in the Multi-Family and Commercial line of business, resulting in a cost allocation increase of \$79,689. The result was a total cost allocation decrease of 0.23% or \$130,850.

Allocated Costs by Service Sector and Line of Business provide the 2015 costs by line of business and service sector. Costs are adjusted and allocated at the seventeen lines of business level of detail shown in this-these tables. For comparison purposes, At-at the bottom of each table-column is also the 2014 total cost, the dollar change and the percentage change. Provided at the top of each table-column are the operational statistics and percent of the total attributed to that specific Agency for each line of business service sector. The color coding denotes the statistic used to adjust each cost category

Member Agency Snapshot is a summary and comparison of the basic operating statistics and includes three years of data. It includes the four statistics used to allocate costs as described in Section 3 of this Application, as follows:

1. Number of Accounts
2. Total Route Labor hours
3. Total Route Hours
4. Total Number of Solid Waste Containers

###

END OF PART I, RECOLOGY 2015 COMPENSATION APPLICATION



SBWMA Questions and Comments to the Recology 2015 Application for an Adjustment to Contractor's Compensation

The following provides the SBWMA's questions and comments on **Part II** of Recology's 2015 Compensation Application.

Pages 1-9

- Please include columns to show totals by Member Agency as appropriate in each of these tables (e.g., number of containers, hours, routes, vehicles).

Page 5

- Please clarify how the percentages shown in Table 5 are derived. For example, are these weekly set-out rates or the average set-out rate calculated over the four week period denoted? In addition, please explain what is meant by "set-out rate" means.

Page 10

- Please explain the impact on Recology's compensation due to the changes associated with a reduction in personnel (a total of 5 fewer from 2014) and the movement of employees into and out of various job categories.

For example, in the 2014 Application Recology denotes there are 24 "Commercial Drivers" and the 2015 Application Recology shows 57; in the 2014 Application Recology denotes there are 8 "Accounting Clerks" and the 2015 Application shows 3.

- In addition, the Recology Applications for 2012, 2013 and 2014 denote a "Recycling Manager" and "Other: Recycling Coordinator" positions; however, the 2015 Application now appears to characterize these positions as "Waste Zero Manager" and "Waste Zero Specialist." Please confirm that these positions are those required as prescribed in Section 7.04 of the Franchise Agreement(s) who are specifically dedicated to the Commercial Recycling Promotion Program.

Pages 11-12

- These pages should be revised to include the page numbers of the sections listed.
- These pages have been revised with the recommended revisions highlighted in yellow (see attached).
 - The “Depreciation Schedule” explanation is moved to the end and labeled as schedule “L”.
 - Please note there is no schedule “I” and elimination of this schedule is explained.
 - Schedule “D” is also moved and an explanation is provided.
 - The text for section “G. Member Agency Facilities” includes a typo reiterating the word “provides.” Now corrected.
 - Section K, Detail 4, includes a typo in the second sentence. The word “is” should be replaced with “are,” as follows: “The calculations used to adjust costs by the annual average percentage change in various indices are included in attachments “H. Index Calcs” worksheet.” (Now corrected.)

Pages 18-19 and 31-71

- The tables on these pages have the wrong column headers. They should be labeled “2015” instead of “2013” or “2014”.

Page 20-21

- Schedule “H. Indexes for Compensation Adjustment” – The text in the yellow boxes states: “Year Three Adjustment Factor.” However, this should more accurately state “percentage change” and also perhaps denote that this is for Rate Year 5.

Pages 30-69

- Please explain where in the Application the “Statistics Used for Cost Allocation” for the “Two On-Call Collection Events” is provided.
 - Specifically, please explain where in the Application the data is provided that ties to the “City # of Accounts,” “City # of route hours/year” and “City Containers in Service” statistics used throughout Attachment N, Schedule D.

Page 85

- This table should be revised to include the Liquidated Damages related deduction in the Performance Incentive payment due to Recology in accordance with the comments provided for Part I, section 1.2.



SBWMA Questions and Comments to the Recology 2015 Application for an Adjustment to Contractor's Compensation

The following provides the SBWMA's questions and comments on **Part II** of Recology's 2015 Compensation Application.

RECOLOGY'S JULY 30, 2014 RESPONSES HIGHLIGHTED

Pages 1-9

- Please include columns to show totals by Member Agency as appropriate in each of these tables (e.g., number of containers, hours, routes, vehicles).

RECOLOGY RESPONSE: Totals added on pages 2, 3, 4 and 6.

Page 5

- Please clarify how the percentages shown in Table 5 are derived. For example, are these weekly set-out rates or the average set-out rate calculated over the four week period denoted? In addition, please explain what is meant by "set-out rate" means.

RECOLOGY RESPONSE: Done.

Page 10

- Please explain the impact on Recology's compensation due to the changes associated with a reduction in personnel (a total of 5 fewer from 2014) and the movement of employees into and out of various job categories.

RECOLOGY RESPONSE: There is no impact to Recology's compensation.

For example, in the 2014 Application Recology denotes there are 24 "Commercial Drivers" and the 2015 Application Recology shows 57; in the 2014 Application Recology denotes there are 8 "Accounting Clerks" and the 2015 Application shows 3.

RECOLOGY RESPONSE:

The difference in commercial drivers relates to internal classifications.

The 8 accounting clerks are presented under accounting clerks, accounting receivable clerks and maintenance clerks.

- In addition, the Recology Applications for 2012, 2013 and 2014 denote a “Recycling Manager” and “Other: Recycling Coordinator” positions; however, the 2015 Application now appears to characterize these positions as “Waste Zero Manager” and “Waste Zero Specialist.” Please confirm that these positions are those required as prescribed in Section 7.04 of the Franchise Agreement(s) who are specifically dedicated to the Commercial Recycling Promotion Program.

RECOLOGY RESPONSE: Yes.

Pages 11-12

- These pages should be revised to include the page numbers of the sections listed.

RECOLOGY RESPONSE: Done.

- These pages have been revised with the recommended revisions highlighted in yellow (see attached).
 - The “Depreciation Schedule” explanation is moved to the end and labeled as schedule “L”.
 - Please note there is no schedule “I” and elimination of this schedule is explained.
 - Schedule “D” is also moved and an explanation is provided.
 - The text for section “G. Member Agency Facilities” includes a typo reiterating the word “provides.” Now corrected.
 - Section K, Detail 4, includes a typo in the second sentence. The word “is” should be replaced with “are,” as follows: “The calculations used to adjust costs by the annual average percentage change in various indices are included in attachments “H. Index Calcs” worksheet.” (Now corrected.)

RECOLOGY RESPONSE: Done.

Pages 18-19 and 31-71

- The tables on these pages have the wrong column headers. They should be labeled “2015” instead of “2013” or “2014”.

RECOLOGY RESPONSE: Done.

Page 20-21

- Schedule “H. Indexes for Compensation Adjustment” – The text in the yellow boxes states: “Year Three Adjustment Factor.” However, this should more accurately state “percentage change” and also perhaps denote that this is for Rate Year 5.

RECOLOGY RESPONSE: Done.

Pages 30-69

- Please explain where in the Application the “Statistics Used for Cost Allocation” for the “Two On-Call Collection Events” is provided.
 - Specifically, please explain where in the Application the data is provided that ties to the “City # of Accounts,” “City # of route hours/year” and “City Containers in Service” statistics used throughout Attachment N, Schedule D.

RECOLOGY RESPONSE:

On-Call collection events are not regularly scheduled. Route hour data is not tracked, therefore route labor hours as presented in Table 8 are used as route hours.

The number of annualized events is used as the number of accounts and the number of containers.

Page 85

- This table should be revised to include the Liquidated Damages related deduction in the Performance Incentive payment due to Recology in accordance with the comments provided for Part I, section 1.2.

RECOLOGY RESPONSE: Done.

APPENDIX C

MEMBER AGENCY COMMENTS AND QUESTIONS ON RECOLOGY 2015 COMPENSATION APPLICATION WITH RECOLOGY'S RESPONSES

SBWMA FINAL REPORT REVIEWING THE 2015 RECOLOGY COMPENSATION APPLICATION

September 18, 2014

Mr. Kevin McCarthy
Executive Director
South Bayside Waste Management Authority
610 Elm Street, Suite 202
San Carlos, CA 94070

Dear Mr. McCarthy:

Re: County of San Mateo Comments on the Recology San Mateo County Rate Year 2015 Application For Contractor's Compensation Adjustment, June 15, 2014, Attachments 1 and 2

The purpose of this correspondence is to provide comments from the County of San Mateo on the following report:

Recology San Mateo County Rate Year 2015 Application For Contractor's Compensation Adjustment, June 15, 2014

We understand that the SBWMA Board Members and member agencies are required to submit their comments to SBWMA in writing on or before July 8, 2014. Our questions, comments, and concerns are contained in the attached table, entitled "County of San Mateo Comments on the Recology San Mateo County Rate Year 2015 Application For Contractor's Compensation Adjustment, June 15, 2014".

If you have any questions, please do not hesitate to contact Joe La Mariana, Lillian Clark, or me a call at 650-363-4100.

Very truly yours,



Ann M. Stillman
Deputy Director
Engineering and Resource Protection



Page 2.

**Re: County of San Mateo Comments on the Recology San Mateo County Rate Year 2015
Application For Contractor's Compensation Adjustment, June 15, 2014, Attachments 1
and 2**

AMS:LC
F-246 (8)

\\Pwadf01\data\users\ewms\05 Staff Reports,Resos,Ordinances\Outside Dept Memos\SBWMA\Rate Review 14-15\Letter to SBWMA Comments on the
2015 Rate Application 07-03-14.docx

**Encl: County of San Mateo Comments on the Recology San Mateo County Rate Year 2015
Application For Contractor's Compensation Adjustment, June 15, 2014**

**cc: Mario Puccinelli, General Manager, Recology San Mateo County
James C. Porter, P.E., Director, Department of Public Works
Joe La Mariana, Waste Management and Environmental Services Manager
Lillian Clark, Resource Conservation Programs Manager**

County of San Mateo Comments on the Recology San Mateo County Rate Year 2015 Application For Contractor's Compensation Adjustment, June 15, 2014

Section	Comment	Response from Recology
Part I: Executive Summary, Page 3, (Page 3 of 4), Percentage of Contractor's Compensation Total Cost Allocation	Please explain in more detail the 2015 Cost Allocation increase for North Fair Oaks of 4.03%. It appears that this number is quoted at 4.02% on page 29.	The correct number is the 4.03% represented on page 3. The 4.02% number and the \$68,137 that are stated on page 29 will be corrected to 4.03% and \$68,376.
Part I: Annual Revenue Reconciliation page 21, Table H (page 4 of 4),	Please provide the details for the revenue in NFO and the County franchised area, indicating the new cart fee revenue for organics and recycling for both areas. In addition, for NFO please breakout what is billed on the tax rolls versus what Recology is billing. This detail is needed in order for the County to determine if Table H is correct.	New cart fee revenue for organics and recycling began in 2014. The revenue reconciliation in Table H is for year 2013 and therefore contains no new cart fee revenue. For NFO \$1,240,421 is tax roll billing and \$1,292,821 is billed by Recology in 2013.
Part I: Allocation of Costs to The Member Agencies North Fair Oaks (CSA 8) page 29, (page 8 of 11)	Please provide the page or Table for the percentages shown in the paragraph. Overall variance increase of 4.02%, (as noted in Table XX, page XX).	The overall increase percentage is in Table M, page 27. The percentages for MFD/Commercial solid waste route labor hours are in Appendix 1-2, page 36. The percentages for 2014 and 2015 are calculated from MFD/Commercial solid waste bin hours in Appendix 1-2, page 36.
Part II: Operation Information, Annual Route Hours by Line of Business, Table 7, page 7, (Page 1 of 1)	Please provide an explanation on why the <u>Annual Route Labor Hours</u> increased 18.5% for Single-Family Recyclable materials in North Fair Oaks, if the numbers of accounts have decreased by -0.2%?	Upon review of the data, it appears as though on May 5, 2014, the route took approximately 1.5 hours more to service the route. This in turn increased the route hour average, thus the increase. Conversely, NFO saw a significant decline in their SFD organic collection LOB.
Part II: Operation Information, Annual Route	Please provide an explanation on why the	Upon review of the data, it appears as

Hours by Line of Business, Table 8, page 8 (Page 1 of 1)	<u>Annual Route Labor Hours by Line of Business</u> increased by 11.5% for Single-Family Recyclable materials in North Fair Oaks and, MFD and Commercial Organics carts by 20.4%	though on May 5, 2014, the route took approximately 1.5 hours more to service the route. This in turn increased the route hour average, thus the increase. Conversely, NFO saw a significant decline in their SFD organic collection LOB.
Section	Comment	Response from Recology
Part II: Calculation of Contractor’s Compensation for Rate Year 2015, Attachment N-J, Service Metrics Used for Cost Allocation by Member Agency, page 22, (1 of 1) North Fair Oaks Column	Please provide an explanation for the increase in <u>Commercial and MFD</u> Total Route Labor hours, for North Fair Oaks. Comparatively, Menlo Park increased 20 accounts for MFD/Commercial, which increased Route Labor Hours 171; the overall increase was of 1.8%. North Fair Oaks increased 12 accounts, an increase of 175 labor hours and the Total Route labor Hours increased was 6%? Compared to Menlo Park, this increase seems disproportionate.	Number of accounts do not equate equally to route labor hours as they do in the residential curbside collection LOB. Menlo Park bin placements and commercial account proximity to one another lends itself to more efficient collection service. Due to cart and bin placement challenges due to both logistical and structural factors, servicing accounts in NFO generally is more labor intensive.
Part II: Calculation of Contractor’s Compensation for Rate Year 2015, Attachment N-J Service Metrics Used for Cost Allocation by Member Agency, page 22, (1 of 1), Unincorporated County Column	<u>Commercial and MFD</u> Please provide a detailed explanation for the increase in the Route Labor hours of 10.0%? Please provide details for the increase in lifts for the Agency Facility Services of 71.4%, The Unincorporated County column has the word “Total” in it. This appears to be an error. If so, please remove.	Commercial and MFD Route Labor hours increases are in the recycling and organics LOB. The increase in Route Labor Hours in the Commercial and MFD organics is largely attributed to a year over year increase of 312 lifts. In the Commercial and MFD Recycling LOB, we identified an error and have made the corrections. Route labor hours in this category have been adjusted to a reduction of .8% from the 10%. The additional lifts relate to service for two additional 96 gal organics carts, two additional 64 gal recycling carts and one additional 32 gal recycling cart all at Coyote Point Park. These services/lifts are additional over last year.

		The word "Total" is removed.
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[Table of County of San Mateo Comments on the Recology San Mateo County Rate Year 2015 Application For Contractor.docx](#)

Cliff Feldman

From: Laura Galli <lgalli@fostercity.org>
Sent: Wednesday, July 09, 2014 3:41 PM
To: Mario Puccinelli
Subject: FW: SBWMA Questions and Comments to Recology 2015 Compensation Application
Attachments: FC year over year.pdf

Mario,

Will the mistake on page 29 of the report (see attached) affect Foster City's overall allocation assignment of 5.96% for 2015, and ultimately our -5.0% variance?

I attached the supporting documents for Foster City, because I tried to follow how the operational statistics for MFD's/commercial could go up, and it looks for the most part they all went down (which may just mean the data was reported incorrectly on page 29). Here's to hoping that's true.

Also why don't you show the year over year change for the table for the # of containers as in the other 3 types of operational statistics (ie. Route hours, route labor hours, and # Accounts)?

Thanks,
Laura

From: Cyndi Urman [<mailto:curman@rethinkwaste.org>]
Sent: Tuesday, July 08, 2014 2:58 PM
To: Mario Puccinelli
Cc: Cyndi Urman; Mark Arsenault; Mike Kelly (mkelly@recology.com); ccollins@recology.com; Cliff Feldman; Faustina Mututa; Heather Co; Hilary Gans; Kevin McCarthy; Marshall Moran; Monica Devincenzi; Afshin Oskoui; Carol Augustine; Brad Underwood; Gary DeJesus; George Rodericks City Manager Atherton; Jay Walter; Jim Porter (jporter@smcgov.org); Joe La Mariana (jlamariana@smcgov.org); John Doughty; John Simonetti; Kathy Leroux; Laura Galli; Mike Gibbons; Phil Scott; Randy Schwartz; Roxanne Murray; Sergio Ramirez; Alicia Aguirre; Alvin Royse; Art Kiesel; Bill Widmer; Bob Lanzone; Cameron Johnson; Cary Wiest; Catherine Carlton; Charles Stone; Charlie Bronitsky; Don Horsley; Edward Moritz (WBSD); Fran Dehn (WBSD); City Attorney; Jerry Deal; Jess Benton; Joe Goethals; Lisa Yarbrough-Gauthier; Mark Olbert; Michael Brownrigg; Peter Ohtaki; Robert Ross; Ruben Abrica (rabrica@cityofepa.org); Warren Slocum
Subject: SBWMA Questions and Comments to Recology 2015 Compensation Application

Dear Mr. Puccinelli,

In accordance with the schedule to conduct a review of the Recology 2015 Compensation Application, attached please find the SBWMA's questions and comments.

Our feedback to Part I is provided in redline format to the narrative submitted by Recology and our comments to Part II are included at the end of this document.

I thank you in advance for your consideration of our questions and comments and look forward to discussing these with you and your staff in the coming weeks.

If you have any questions or concerns, please do not hesitate to contact me.

Thank you,
Cliff



From: Cyndi Urman
Sent: Thursday, June 26, 2014 9:34 AM
To: Cyndi Urman
Cc: Cliff Feldman; Faustina Mututa; Heather Co; Hilary Gans; Kevin McCarthy; Marshall Moran; Monica Devincenzi
Subject: Schedule to Review Recology 2015 Compensation Application

Dear Board Members and Staff,

This is a friendly reminder providing the schedule (see below) to complete our collective review and analysis of Recology’s 2015 Application for an Adjustment to Contractor’s Compensation. This schedule is also included in the monthly staff update in the Board packet. The upcoming milestone of **July 8th** is for the Member Agencies and the JPA to provide written comments to Recology on their compensation application; the application was provided on June 13th to all Member Agencies and the SBWMA.

This review process concludes with consideration of the SBWMA’s Final Report on Review of Recology’s 2015 Application at the September 25, 2014 Board meeting.

Due Date	Milestone
June 13, 2014	Recology 2015 Compensation Application Submitted to Member Agencies and SBWMA
July 8, 2014	Member Agencies and SBWMA Comments Due to Recology
July 30, 2014	Revised Recology 2015 Compensation Application Submitted to Member Agencies and SBWMA
August 15, 2014	SBWMA Draft Report on Review of the Recology 2015 Compensation Application Issued to Member Agencies
August 29, 2014	Member Agencies Written Comments on SBWMA Draft Report Due
September 11, 2014	SBWMA Special Board Meeting: Presentation by Staff and Discussion
September 18, 2014	SBWMA Issues Final Report on Review of the Recology 2015 Compensation Application to Board
September 25, 2014	SBWMA Board Meeting: Consideration of SBWMA Final Report on Review of the Recology 2015 Compensation Application

If you have any questions regarding the review process, please do not hesitate to give me a call at (650) 802-3502.

Thank you,
Cliff



that had a reduction in Compactor or Debris Box hauls, including on-call services and MFD Bulky Item Collections (BIC) during the four-week period in 2014 as compared to 2013:

Account	# of hauls in 2014	# of hauls in 2013	2014 vs. 2013
Avalon Bay	0	4	-4 <i>ok</i>
Isle Cove (BIC)	9	6	-3 <i>(+3)</i>
Marina Point (BIC)	3	2	-1 <i>(+1)</i>
Marina Green (BIC)	3	2	-1 <i>(+1)</i>
Safeway	8	2	-6 <i>(+6)</i>
Solar City	5	2	-3 <i>(+3)</i>

Foster City also realized a significant reduction of containers in the MFD/Commercial Recycle LOB. This is due in part to increased container sizes, allowing for less frequent hauls. The number of cart based collections was reduced 9% as a result of consolidation into metal containers, which increased by 9%. This consolidation resulted in less service time required, which lowered the Route Labor Hours by 17.2%.

The same holds true for the MFD/Commercial Organics LOB. This is due in part to the consolidation of containers, which increases route efficiencies. The number of cart based collections was reduced by 9%, where as the bin collections increased 7.5%. This consolidation resulted in less service time required, which lowered the Route labor Hours by 22%.

North Fair Oaks (CSA 8)

The Community of North Fair Oaks (NFO) experienced an overall cost allocation variance increase of 4.02%, which equates to an increase of \$68,137. The largest part of this increase is attributed to the collection of MFD/Commercial service sector in Solid Waste, Recyclable, and the Organics lines of business (LOB) where the allocated costs increased \$55,000. As an example, the MFD /Commercial Solid Waste LOB saw a cumulative increase in Route Labor Hours of 92 hours or 5.9% year over year, which resulted in the NFO percentage of the total SBWMA MFD/Commercial increasing from 4.8% in 2014 to 5.1% in 2015. This was further magnified as total hours in this

SBWMA COLLECTION AGREEMENT

ATTACHMENT N

Appendix 1-1

SERVICE METRICS USED FOR COST ALLOCATION BY MEMBER AGENCY

2015	Metrics Summary Used for Cost Allocation													
	Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
SINGLE-FAMILY DWELLING														
# of Accounts - 2015	93,999	2,340	6,759	6,604	4,155	6,747	3,646	7,829	2,626	17,316	8,608	20,120	2,208	5,041
# of Accounts - 2014	93,874	2,341	6,743	6,591	4,153	6,789	3,637	7,816	2,632	17,248	8,595	20,082	2,217	5,030
Change #	125	-1	16	13	2	-42	9	13	-6	68	13	38	-9	11
Change %	0.1%	0.0%	0.2%	0.2%	0.0%	-0.6%	0.2%	0.2%	-0.2%	0.4%	0.2%	0.2%	-0.4%	0.2%
Total Route Labor hours year - 2015	142,302	6,045	8,670	9,843	6,658	8,635	11,186	11,765	4,065	24,736	11,848	27,287	3,580	7,984
Total Route Labor hours year - 2014	149,744	6,600	9,672	10,301	6,712	9,194	11,658	12,517	4,204	25,108	13,656	27,502	3,851	8,769
Change #	-7,442	-555	-1,002	-458	-54	-560	-471	-752	-139	-372	-1,808	-215	-271	-785
Change %	-5.0%	-8.4%	-10.4%	-4.4%	-0.8%	-6.1%	-4.0%	-6.0%	-3.3%	-1.5%	-13.2%	-0.8%	-7.0%	-9.0%
# of route hours/year - 2015	130,515	5,307	8,042	8,831	5,833	7,711	10,208	10,871	3,698	22,873	11,171	25,306	3,277	7,386
# of route hours/year - 2014	137,593	5,927	8,837	9,373	6,076	8,394	10,728	11,543	3,712	23,184	12,689	25,702	3,421	8,007
Change #	-7,078	-619	-794	-543	-244	-683	-519	-672	-15	-311	-1,518	-396	-144	-621
Change %	-5.1%	-10.5%	-9.0%	-5.8%	-4.0%	-8.1%	-4.8%	-5.8%	-0.4%	-1.3%	-12.0%	-1.5%	-4.2%	-7.8%
Total Containers in Service - 2015	505,867	17,010	35,710	35,342	21,970	34,267	20,193	42,410	14,828	92,901	45,700	107,036	11,954	26,546
Total Containers in Service - 2014	505,541	17,000	35,288	34,962	22,031	34,475	20,194	43,148	14,925	92,962	45,553	106,331	12,120	26,552
Change #	326	10	422	380	-61	-208	-1	-738	-97	-61	147	705	-166	-6
Change %	0.1%	0.1%	1.2%	1.1%	-0.3%	-0.6%	0.0%	-1.7%	-0.6%	-0.1%	0.3%	0.7%	-1.4%	0.0%
COMMERCIAL & MED														
# of Accounts - 2015	22,072	28	904	2,925	863	1,167	24	2,569	914	4,214	2,491	5,492	77	404
# of Accounts - 2014	21,840	28	908	2,835	837	1,186	24	2,549	902	4,191	2,445	5,451	75	409
Change #	232	0	-4	90	26	-19	0	20	12	23	46	41	2	-5
Change %	1.1%	0.0%	-0.4%	3.2%	3.1%	-1.6%	0.0%	0.8%	1.3%	0.5%	1.9%	0.8%	2.7%	-1.2%
Total Route Labor hours year - 2015	87,651	499	5,917	12,316	2,599	4,838	116	9,797	3,083	16,210	7,861	22,872	599	944
Total Route Labor hours year - 2014	88,501	492	6,056	12,625	2,654	5,426	161	9,626	2,908	15,899	7,519	23,688	589	858
Change #	-850	6	-138	-309	-55	-588	-45	171	175	311	341	-816	10	86
Change %	-1.0%	1.3%	-2.3%	-2.4%	-2.1%	-10.8%	-27.8%	1.8%	6.0%	2.0%	4.5%	-3.4%	1.7%	10.0%
# of route hours/year - 2015	68,918	394	4,481	9,365	2,215	4,292	110	8,220	2,191	12,727	6,427	17,174	507	815
# of route hours/year - 2014	69,602	378	4,508	9,466	2,274	4,993	139	8,024	2,060	12,584	6,361	17,605	495	716
Change #	-684	16	-27	-102	-60	-700	-29	196	130	143	67	-431	12	99
Change %	-1.0%	4.3%	-0.6%	-1.1%	-2.6%	-14.0%	-20.9%	2.4%	6.3%	1.1%	1.1%	-2.4%	2.4%	13.9%
AGENCY FACILITY SERVICES														
# of Lifts per year - 2015	281,164	1,820	11,804	36,348	3,016	3,133	1,456	75,491	2,704	74,529	24,154	45,812	273	624
# of Lifts per year - 2014	270,465	1,820	6,188	38,532	3,224	3,289	1,456	70,174	2,912	73,944	23,452	44,733	377	364
Change #	10,699	0	5,616	-2,184	-208	-156	0	5,317	-208	585	702	1,079	-104	260
Change %	4.0%	0.0%	90.8%	-5.7%	-6.5%	-4.7%	0.0%	7.6%	-7.1%	0.8%	3.0%	2.4%	-27.6%	71.4%
Total Route Labor hours year - 2015	5,844	72	268	1,447	59	100	12	1,049	90	1,435	475	815	9	13
Total Route Labor hours year - 2014	5,439	86	170	1,302	86	142	24	951	107	1,369	446	724	8	24
Change #	405	-15	98	145	-27	-42	-12	98	-17	66	29	91	1	-11
Change %	7.4%	-16.9%	57.6%	11.1%	-31.2%	-29.5%	-48.5%	10.3%	-15.8%	4.9%	6.4%	12.6%	14.3%	-45.2%
# of route hours/year - 2015	3,715	52	182	662	56	94	11	837	49	866	345	540	8	12
# of route hours/year - 2014	3,512	58	132	617	57	137	20	736	73	819	326	509	7	21
Change #	204	-5	50	46	-1	-42	-10	101	-24	47	19	31	1	-9
Change %	5.8%	-9.5%	38.0%	7.4%	-1.5%	-31.1%	-48.4%	13.8%	-32.5%	5.8%	5.8%	6.1%	11.1%	-41.7%

Appendix I - Summary Service Metrics
Metrics Summary Used for Cost Allocation

OPERATIONAL INFORMATION

Appendix 1-2

Table 8		Annual Route Labor Hours by Line of Business															
SBWMA Member Agency	Rate Year	Single-Family Solid Waste	Single-Family Recyclable Materials	Single-Family Organic Materials	Single-Family Battery, Cell Phone, Oil and Oil Filter Collection	Multi-Family and Commercial Solid Waste (Bins)	Multi-Family and Commercial Solid Waste (Carts)	Multi-Family and Commercial Recyclable Materials (Bins)	Multi-Family and Commercial Recyclable Materials (Carts)	Multi-Family and Commercial Organic Materials (Bins)	Multi-Family and Commercial Organic Materials (Carts)	Multi-Family and Commercial Roll-off and Compactor (Solid Waste, Recyclable and Organic Materials)	Member Agency Facilities Solid Waste	Member Agency Facilities Organic Materials	Member Agency Facilities Recyclable Materials	Member Agency Facilities Roll-off and Compactor	Two On-Call Collection Events (SFD and MFD)
Atherton	2015	1,467.4	1,781.3	2,583.9	8.9	286.9	13.0	135.8	6.2	54.2	2.5	0.0	49.8	2.5	19.6	57.2	194.7
	2014	1,604.3	1,716.3	3,044.8	8.6	310.3	14.1	103.5	4.7	57.2	2.6	0.0	66.6	7.1	12.8	108.0	217.3
	% change	-8.5%	3.8%	-15.1%	3.8%	-7.5%	-7.5%	31.2%	31.3%	-5.2%	-5.4%	0.0%	-25.3%	-64.8%	53.5%	-47.1%	-10.4%
Belmont	2015	2,559.4	2,467.6	2,622.7	12.3	2,099.3	1,129.6	1,447.3	778.7	224.4	120.7	117.5	176.8	10.1	80.8	18.8	995.8
	2014	2,966.8	2,818.5	3,071.4	14.1	2,265.5	1,219.0	1,393.8	750.0	146.6	78.9	201.9	89.1	17.1	63.7	41.6	787.5
	% change	-13.7%	-12.5%	-14.6%	-12.5%	-7.3%	-7.3%	3.8%	3.8%	53.0%	53.0%	-41.8%	98.5%	-40.9%	26.8%	-54.9%	26.4%
Burlingame	2015	3,166.5	2,753.9	2,916.6	13.8	3,687.0	2,909.4	1,993.5	1,573.1	435.7	343.8	1,373.4	1,380.3	15.8	50.9	349.9	978.8
	2014	3,476.2	2,903.3	3,022.9	14.5	3,698.0	2,918.1	2,110.8	1,665.6	544.1	429.4	1,258.9	1,242.7	16.2	43.3	494.1	869.6
	% change	-8.9%	-5.1%	-3.5%	-5.1%	-0.3%	-0.3%	-5.6%	-5.6%	-19.9%	-19.9%	9.1%	11.1%	-2.6%	17.6%	-29.2%	12.6%
East Palo Alto	2015	2,546.5	1,783.1	1,819.0	8.9	1,339.6	309.2	497.6	114.8	108.5	25.1	204.7	52.7	0.0	6.6	104.0	492.1
	2014	2,496.8	1,790.3	1,855.1	9.0	1,329.3	306.8	523.3	120.8	122.8	28.4	223.1	70.8	0.0	15.4	64.6	552.4
	% change	2.0%	-0.4%	-1.9%	-0.4%	0.8%	0.8%	-4.9%	-4.9%	-11.6%	-11.6%	-8.2%	-25.6%	0.0%	-56.9%	61.1%	-10.9%
Foster City	2015	3,063.1	2,756.6	1,957.5	13.8	1,997.0	381.5	1,369.9	261.7	373.3	71.3	382.9	78.1	12.0	9.8	90.1	830.1
	2014	3,064.1	2,983.5	2,194.1	14.9	1,841.8	351.9	1,653.8	316.0	481.6	92.0	688.7	63.5	15.3	62.8	66.1	922.8
	% change	0.0%	-7.6%	-10.8%	-7.6%	8.4%	8.4%	-17.2%	-17.2%	-22.5%	-22.5%	-44.4%	22.9%	-21.8%	-84.4%	36.3%	-10.0%
Hillsborough	2015	3,832.3	4,264.2	2,663.7	21.3	33.0	0.8	21.1	0.5	59.0	1.5	0.0	2.6	2.2	7.5	176.4	383.6
	2014	3,961.1	4,095.4	3,113.6	20.5	55.9	1.4	49.3	1.3	51.4	1.3	0.0	4.5	6.6	13.0	135.8	446.5
	% change	-3.3%	4.1%	-14.5%	4.1%	-41.0%	-40.8%	-57.3%	-56.8%	14.7%	14.5%	0.0%	-41.1%	-66.2%	-42.1%	29.9%	-14.1%
Menlo Park	2015	3,767.4	3,735.1	3,475.2	18.7	3,160.9	2,019.7	1,772.0	1,132.2	623.7	398.5	689.8	692.5	18.5	338.1	102.3	749.7
	2014	3,880.5	3,901.3	3,602.5	19.5	3,319.3	2,120.9	1,727.7	1,103.9	581.0	371.2	401.8	680.3	35.4	235.7	113.6	1,093.3
	% change	-2.9%	-4.3%	-3.5%	-4.3%	-4.8%	-4.8%	2.6%	2.6%	7.4%	7.4%	71.7%	1.8%	-47.9%	43.5%	-10.0%	-31.4%
Redwood City	2015	8,191.0	8,103.6	6,385.8	40.5	6,280.4	3,422.3	2,774.8	1,512.1	714.9	389.5	1,116.3	1,304.7	29.7	100.9	292.1	1,974.6
	2014	7,653.4	8,256.5	6,882.9	41.3	6,298.7	3,432.4	2,753.3	1,500.3	648.5	353.4	912.5	1,257.4	33.4	78.1	492.8	2,232.3
	% change	7.0%	-1.9%	-7.2%	-1.9%	-0.3%	-0.3%	0.8%	0.8%	10.2%	10.2%	22.3%	3.8%	-11.1%	29.3%	-40.7%	-11.5%
San Carlos	2015	3,793.3	3,695.5	3,137.5	18.5	2,800.8	1,242.5	1,950.7	865.3	335.4	148.8	517.0	246.2	28.3	200.3	166.5	1,184.7
	2014	4,456.1	4,363.2	3,623.4	21.8	2,691.7	1,194.1	1,949.6	864.9	274.0	121.5	423.5	246.5	72.6	127.0	176.7	1,169.3
	% change	-14.9%	-15.3%	-13.4%	-15.3%	4.1%	4.1%	0.1%	0.1%	22.4%	22.4%	22.1%	-0.1%	-61.0%	57.7%	-5.7%	1.3%
San Mateo	2015	9,444.7	7,825.1	7,065.1	39.1	8,048.0	5,082.2	4,411.7	2,785.9	686.3	433.4	1,425.0	542.8	62.3	209.6	190.9	2,873.5
	2014	9,475.3	7,924.7	7,307.9	39.6	8,466.8	5,346.6	4,436.3	2,801.5	754.4	476.4	1,406.3	420.1	80.2	223.3	155.0	2,714.6
	% change	-0.3%	-1.3%	-3.3%	-1.3%	-4.9%	-4.9%	-0.6%	-0.6%	-9.0%	-9.0%	1.3%	29.2%	-22.3%	-6.1%	23.2%	5.9%
North Fair Oaks	2015	1,379.0	1,546.2	849.6	7.7	1,652.0	513.5	559.0	173.8	141.1	43.9	0.0	88.3	1.8	0.4	0.0	274.6
	2014	1,385.9	1,386.3	1,077.0	6.9	1,560.9	485.2	540.7	168.1	117.2	36.4	0.0	98.5	3.9	4.9	0.0	341.1
	% change	-0.5%	11.5%	-21.1%	11.5%	5.8%	5.8%	3.4%	3.4%	20.4%	20.4%	0.0%	-10.4%	0.0%	0.0%	0.0%	-19.5%
WBSD	2015	1,111.9	1,173.1	1,082.6	5.9	210.3	41.9	200.8	40.0	88.5	17.6	0.0	4.8	2.3	1.7	0.0	200.5
	2014	1,178.1	1,258.5	1,131.7	6.3	251.3	50.0	189.2	37.7	50.7	10.1	0.0	1.6	2.5	3.5	0.0	270.5
	% change	-5.6%	-6.8%	-4.3%	-6.8%	-16.3%	-16.3%	6.2%	6.2%	74.5%	74.5%	0.0%	195.1%	-9.6%	0.0%	0.0%	-25.9%
Uninc. County	2015	2,474.4	2,547.1	2,433.4	12.7	336.3	110.5	296.7	97.5	77.6	25.5	0.0	0.0	7.0	6.1	0.0	503.7
	2014	2,667.0	2,688.8	2,881.0	13.4	397.4	130.6	195.3	64.5	52.5	17.2	0.0	0.0	13.1	10.8	0.0	505.6
	% change	-7.2%	-5.3%	-15.5%	-5.3%	-15.4%	-15.4%	51.2%	51.2%	47.8%	47.9%	0.0%	0.0%	-46.5%	0.0%	0.0%	-0.4%
TOTAL	2015	46,797.0	44,432.3	38,992.3	222.2	31,931.5	17,176.1	17,430.8	9,341.8	3,922.5	2,022.1	5,826.5	4,619.5	192.3	1,032.2	1,548.1	11,636.3
TOTAL	2014	48,265.5	46,086.6	42,808.4	230.4	32,486.7	17,570.9	17,627.5	9,399.0	3,881.9	2,018.8	5,516.7	4,241.6	303.3	894.2	1,848.2	12,122.5
	% change	-3.0%	-3.6%	-8.9%	-3.6%	-1.7%	-2.2%	-1.1%	-0.6%	1.0%	0.2%	5.6%	8.9%	-36.6%	15.4%	-16.2%	-4.0%

1. Rate year 2015 information was gathered over the 4-week period from April 14, 2014 to May 11, 2014 using the daily "Route Time & Distance by Franchise" reports from our Routeware System
2. Rate year 2014 information was gathered over the 4-week period from April 15, 2013 to May 12, 2013 using the daily "Route Time & Distance by Franchise" reports from our Routeware System

Appendix 1 - Summary Service Metrics
Annual Route Labor Hours by Line of Business

Table 7		Annual Route Hours by Line of Business															
Rate Year	Single-Family Solid Waste	Single-Family Recyclable Materials	Single-Family Organic Materials	Single-Family Battery, Cell Photo, Oil and Oil Filter Collection	Multi-Family and Commercial Solid Waste (Bins)	Multi-Family and Commercial Solid Waste (Carts)	Multi-Family and Commercial Recyclable Materials (Bins)	Multi-Family and Commercial Recyclable Materials (Carts)	Multi-Family and Commercial Organic Materials (Bins)	Multi-Family and Commercial Organic Materials (Carts)	Multi-Family and Commercial Organic Materials (Bins)	Multi-Family and Commercial Organic Materials (Carts)	Multi-Family and Commercial Roll-off and Compactor (Solid Waste, Recyclable and Organic Materials)	Member Agency Facilities Solid Waste	Member Agency Facilities Organic Materials	Member Agency Facilities Recyclable Materials	Member Agency Facilities (Roll-off and Compactor)
Atherton	2015	1,331.9	1,531.6	2,233.9	7.7	199.2	9.1	130.8	5.9	47.1	2.1	0.0	31.2	2.2	18.9	57.2	
	2014	1,370.4	1,509.1	2,814.8	7.5	213.4	9.7	97.1	4.4	51.1	2.3	0.0	39.6	6.0	12.2	108.0	
	% change	-2.8%	1.5%	-20.6%	1.5%	-6.6%	-6.5%	34.7%	34.4%	-7.7%	-7.8%	0.0%	-21.2%	-63.3%	55.6%	-47.1%	
Belmont	2015	2,452.7	2,270.2	2,300.9	11.4	1,243.2	668.9	1,376.4	740.6	217.3	116.9	117.5	95.3	9.9	76.3	18.8	
	2014	2,727.0	2,579.4	2,716.8	12.9	1,342.3	722.2	1,316.2	708.2	141.1	75.9	201.9	55.2	16.6	59.7	41.6	
	% change	-10.1%	-12.0%	-15.3%	-12.0%	-7.4%	-7.4%	4.6%	4.6%	54.1%	54.1%	-41.8%	72.7%	-40.2%	27.7%	-54.9%	
Burlingame	2015	2,826.0	2,444.0	2,557.4	12.2	1,569.8	2,283.9	1,392.2	2,025.5	293.3	426.7	1,373.4	597.4	15.2	49.7	349.9	
	2014	3,164.5	2,609.0	2,704.1	13.0	1,554.8	2,262.2	1,435.1	2,088.0	353.4	514.1	1,258.9	562.0	14.4	40.3	494.1	
	% change	-10.7%	-6.3%	-5.4%	-6.3%	1.0%	1.0%	-3.0%	-3.0%	-17.0%	-17.0%	9.1%	6.3%	5.6%	23.3%	-29.2%	
East Palo Alto	2015	2,125.9	1,552.1	1,647.1	7.8	1,067.6	246.4	468.7	108.2	96.9	22.4	204.7	49.8	0.0	6.3	104.0	
	2014	2,195.6	1,624.7	1,687.4	8.1	1,064.4	245.7	492.2	113.6	110.1	25.4	223.1	42.2	0.0	14.8	64.6	
	% change	-3.2%	-4.5%	-2.4%	-4.5%	0.3%	0.3%	-4.8%	-4.8%	-12.0%	-12.0%	-8.2%	18.1%	0.0%	-57.6%	61.1%	
Foster City	2015	2,641.1	2,404.6	1,811.2	12.0	1,621.5	309.8	1,305.1	249.3	355.6	68.0	382.9	73.1	11.8	9.3	90.1	
	2014	2,789.6	2,596.0	2,059.5	13.0	1,593.8	304.5	1,573.1	300.6	446.6	85.3	688.7	62.0	15.2	59.6	66.1	
	% change	-5.3%	-7.4%	-12.1%	-7.4%	1.7%	1.7%	-17.0%	-17.0%	-20.4%	-20.4%	-44.4%	18.0%	-22.4%	-84.4%	36.3%	
Hillsborough	2015	3,513.6	4,072.1	2,198.1	20.4	31.8	0.8	19.8	0.5	55.6	1.4	0.0	1.2	2.2	7.2	176.4	
	2014	3,609.1	3,915.7	2,717.2	19.6	42.4	1.1	46.8	1.2	46.4	1.2	0.0	2.0	5.9	12.5	135.8	
	% change	-2.6%	4.0%	-19.1%	4.0%	-25.0%	-25.0%	-57.7%	-57.7%	19.9%	20.3%	0.0%	-42.3%	-63.6%	-42.2%	29.9%	
Menlo Park	2015	3,480.1	3,468.5	3,137.9	17.3	1,701.1	2,173.8	1,207.0	1,542.5	397.7	508.2	689.8	501.5	17.1	318.8	102.3	
	2014	3,594.2	3,614.1	3,204.9	18.1	1,800.7	2,301.1	1,171.4	1,497.0	374.0	478.0	401.8	480.6	32.7	222.7	113.6	
	% change	-3.2%	-4.0%	-2.1%	-4.0%	-5.5%	-5.5%	3.0%	3.0%	6.3%	6.3%	71.7%	4.3%	-47.6%	43.2%	-10.0%	
Redwood City	2015	7,596.1	7,440.3	5,788.0	37.2	3,618.5	2,870.5	2,287.5	1,814.6	568.6	451.0	1,116.3	741.9	28.2	96.0	292.1	
	2014	7,074.3	7,537.2	6,265.2	37.7	3,717.6	2,949.1	2,276.2	1,805.7	514.4	408.1	912.5	712.0	30.8	75.9	492.8	
	% change	7.4%	-1.3%	-7.6%	-1.3%	-2.7%	-2.7%	0.5%	0.5%	10.5%	10.5%	22.3%	4.2%	-8.4%	26.5%	-40.7%	
San Carlos	2015	3,601.2	3,511.0	2,839.1	17.6	1,946.9	863.7	1,822.6	808.5	324.6	144.0	517.0	125.3	27.3	192.7	166.6	
	2014	4,058.9	4,080.0	3,340.3	20.4	1,972.6	875.1	1,877.9	833.1	262.1	116.3	423.5	133.8	70.9	121.7	176.7	
	% change	-11.3%	-13.9%	-15.0%	-13.9%	-1.3%	-1.3%	-2.9%	-2.9%	23.8%	23.8%	22.1%	-6.3%	-61.6%	58.3%	-5.7%	
San Mateo	2015	8,876.1	7,262.0	6,222.1	36.3	3,554.8	4,358.2	3,052.9	3,742.9	467.4	573.1	1,425.0	287.3	59.2	193.6	190.9	
	2014	8,824.6	7,411.6	6,677.0	37.1	3,684.7	4,517.5	3,088.1	3,786.1	504.2	618.1	1,406.3	223.9	73.9	211.1	155.0	
	% change	0.6%	-2.0%	-6.8%	-2.0%	-3.5%	-3.5%	-1.1%	-1.1%	-7.3%	-7.3%	1.3%	28.3%	-19.9%	-8.3%	23.2%	
North Fair Oaks	2015	1,202.5	1,424.7	781.6	7.1	1,018.7	316.7	575.1	114.5	126.4	39.3	0.0	47.4	1.6	0.3	0.0	
	2014	1,162.1	1,202.7	994.4	6.0	949.0	295.0	565.9	112.7	104.9	32.6	0.0	64.9	3.4	4.7	0.0	
	% change	3.5%	18.5%	-21.4%	18.5%	7.3%	7.3%	1.6%	1.6%	20.4%	20.4%	0.0%	-27.0%	-54.4%	-93.4%	0.0%	
WBSD	2015	1,021.7	1,094.0	950.1	5.5	153.0	30.5	191.7	38.2	77.8	15.5	0.0	4.4	2.1	1.7	0.0	
	2014	1,034.9	1,081.4	1,023.4	5.4	188.2	37.5	179.0	35.6	45.3	9.0	0.0	1.6	2.3	3.4	0.0	
	% change	-1.3%	1.2%	-7.2%	1.2%	-18.7%	-18.7%	7.1%	7.1%	71.7%	71.6%	0.0%	181.3%	-9.5%	0.0%	0.0%	
Uninc. County	2015	2,291.5	2,316.5	2,251.5	11.6	255.4	83.9	284.2	93.4	73.9	24.3	0.0	0.0	6.8	5.7	0.0	
	2014	2,452.1	2,446.6	2,578.6	12.2	304.7	100.1	186.0	61.1	48.1	15.8	0.0	0.0	11.6	9.7	0.0	
	% change	-6.5%	-5.3%	-12.7%	-5.3%	-16.2%	-16.2%	52.8%	52.8%	53.8%	53.9%	0.0%	0.0%	-41.6%	-41.8%	0.0%	
TOTAL	2015	42,960.3	40,791.6	34,718.8	204.0	17,981.4	14,216.1	14,113.9	11,284.7	3,102.3	2,392.9	5,826.5	2,555.7	183.5	976.3	1,548.1	
TOTAL	2014	44,057.3	42,207.5	38,783.4	211.0	18,428.5	14,620.7	14,305.0	11,347.1	3,001.6	2,382.2	5,516.7	2,379.7	283.8	848.3	1,848.2	
	% change	-2.5%	-3.4%	-10.5%	-3.4%	-2.4%	-2.4%	-1.3%	-0.6%	3.4%	0.5%	5.6%	7.4%	-35.3%	15.1%	-16.2%	

1. Rate year 2015 information was gathered over the 4-week period from April 14, 2014 to May 11, 2014 using the daily Route Time & Distance by Franchise reports from our Routeware System
 2. Rate year 2014 information was gathered over the 4-week period from April 15, 2013 to May 12, 2013 using the daily Route Time & Distance by Franchise reports from our Routeware System

containers

OPERATIONAL INFORMATION

Appendix 1-4

Table 4		Number of Containers in Service by Line of Business													
SBWMA Member Agency	Single-Family Solid Waste	Single-Family Recyclable Materials	Single-Family Organic Materials	Multi-Family and Commercial Solid Waste (Bins)	Multi-Family and Commercial Solid Waste (Carts)	Multi-Family and Commercial Recyclable Materials (Bins)	Multi-Family and Commercial Recyclable Materials (Carts)	Multi-Family and Commercial Organic Materials (Bins)	Multi-Family and Commercial Organic Materials (Carts)	Multi-Family and Commercial Roll-off and Compactor (Solid Waste, Recyclable and Organic Materials)	Member Agency Facilities Solid Waste	Member Agency Facilities Organic Materials	Member Agency Facilities Recyclable Materials	Member Agency Facilities (Roll-off and Compactor)	Two On-Call Collection Events (SFD and MFD)
Atherton	2,539.0	2,542.0	6,443.0	13.0	1.0	10.0	32.0	5.0	0.0	0.0	11.0	6.0	15.0	10.0	0.0
Belmont	6,793.0	6,693.0	6,782.0	384.0	475.0	269.0	978.0	50.0	42.0	11.0	55.0	51.0	66.0	4.0	0.0
Burlingame	6,674.0	6,652.0	6,691.0	476.0	2,060.0	384.0	2,194.0	32.0	226.0	20.0	16.0	11.0	27.0	13.0	0.0
East Palo Alto	4,191.0	4,177.0	4,232.0	198.0	366.0	98.0	540.0	16.0	150.0	11.0	5.0	1.0	11.0	11.0	0.0
Foster City	6,765.0	6,746.0	5,550.0	303.0	461.0	216.0	980.0	50.0	38.0	34.0	10.0	4.0	13.0	10.0	0.0
Hillsborough	3,712.0	3,738.0	4,475.0	9.0	2.0	6.0	26.0	8.0	3.0	0.0	4.0	6.0	16.0	9.0	0.0
Menlo Park	8,057.0	8,020.0	8,745.0	562.0	1,484.0	364.0	1,763.0	83.0	220.0	48.0	283.0	25.0	137.0	9.0	0.0
Redwood City	18,052.0	17,802.0	17,366.0	1,115.0	2,198.0	716.0	2,510.0	96.0	194.0	55.0	277.0	19.0	40.0	23.0	0.0
San Carlos	8,637.0	8,640.0	8,697.0	553.0	1,084.0	374.0	1,493.0	48.0	89.0	20.0	13.0	20.0	69.0	10.0	0.0
San Mateo	20,418.0	20,268.0	19,881.0	1,156.0	3,786.0	685.0	4,555.0	65.0	254.0	67.0	103.0	69.0	106.0	20.0	0.0
North Fair Oaks	2,990.0	2,817.0	2,820.0	251.0	470.0	154.0	465.0	18.0	16.0	0.0	6.0	2.0	5.0	1.0	0.0
West Bay	2,235.0	2,252.0	2,549.0	22.0	32.0	21.0	61.0	5.0	5.0	0.0	1.0	1.0	1.0	2.0	0.0
Uninc. County	5,070.0	5,063.0	5,247.0	57.0	183.0	50.0	284.0	8.0	24.0	0.0	0.0	4.0	7.0	1.0	0.0
TOTAL	96,133.0	95,410.0	99,478.0	5,099.0	12,602.0	3,347.0	15,881.0	484.0	1,261.0	266.0	784.0	219.0	513.0	123.0	0.0

Accounts

Table 1		Number of Accounts by Line of Business													
SBWMA Member Agency	Rate Year	Single-Family Solid Waste	Single-Family Recyclable Materials	Single-Family Organic Materials	Single-Family Battery, Cell Phone, Oil and Oil Filter Collection	Multi-Family and Commercial Solid Waste (Bins)	Multi-Family and Commercial Solid Waste (Carts)	Multi-Family and Commercial Recyclable Materials (Bins)	Multi-Family and Commercial Recyclable Materials (Carts)	Multi-Family and Commercial Organic Materials (Bins)	Multi-Family and Commercial Organic Materials (Carts)	Multi-Family and Commercial Roll-off and Compactor (Solid Waste, Recyclable and Organic Materials)	Member Agency Facilities (Solid Waste, Organic and Recyclable Materials)	Member Agency Facilities (Roll-off and Compactor)	
Atherton	2015	2,340.0	2,336.0	2,317.0	2,336.0	10.0	1.0	7.0	5.0	0.0	0.0	0.0	7.0	5.0	
	2014	2,341.0	2,338.0	2,319.0	2,338.0	10.0	1.0	7.0	5.0	0.0	0.0	0.0	7.0	2.0	
	% change	0.0%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Belmont	2015	6,759.0	6,660.0	6,540.0	6,660.0	207.0	183.0	138.0	294.0	24.0	31.0	9.0	18.0	3.0	
	2014	6,743.0	6,730.0	6,506.0	6,730.0	206.0	212.0	134.0	283.0	21.0	28.0	8.0	19.0	3.0	
	% change	0.2%	-1.0%	0.5%	-1.0%	0.5%	-13.7%	3.0%	3.9%	14.3%	10.7%	12.5%	-5.3%	0.0%	
Burlingame	2015	6,604.0	6,581.0	6,519.0	6,581.0	449.0	909.0	362.0	991.0	30.0	136.0	16.0	97.0	2.0	
	2014	6,591.0	6,569.0	6,505.0	6,569.0	437.0	927.0	306.0	989.0	29.0	102.0	15.0	98.0	2.0	
	% change	0.2%	0.2%	0.2%	0.2%	2.7%	-1.9%	18.3%	0.2%	3.4%	33.3%	6.7%	-1.0%	0.0%	
East Palo Alto	2015	4,155.0	4,151.0	4,152.0	4,151.0	158.0	181.0	86.0	252.0	16.0	137.0	11.0	41.0	1.0	
	2014	4,153.0	4,148.0	4,150.0	4,148.0	154.0	177.0	79.0	253.0	11.0	136.0	9.0	41.0	1.0	
	% change	0.0%	0.1%	0.0%	0.1%	2.6%	2.3%	8.9%	-0.4%	45.5%	0.7%	22.2%	0.0%	0.0%	
Foster City	2015	6,747.0	6,737.0	5,525.0	6,737.0	167.0	354.0	138.0	391.0	41.0	16.0	20.0	9.0	3.0	
	2014	6,789.0	6,779.0	5,461.0	6,779.0	171.0	364.0	142.0	401.0	39.0	18.0	17.0	9.0	2.0	
	% change	-0.6%	-0.6%	1.2%	-0.6%	-2.3%	-2.7%	-2.8%	-2.5%	5.1%	-11.1%	17.6%	0.0%	0.0%	
Hillsborough	2015	3,646.0	3,639.0	3,608.0	3,639.0	6.0	1.0	3.0	7.0	5.0	2.0	0.0	6.0	2.0	
	2014	3,637.0	3,630.0	3,603.0	3,630.0	6.0	1.0	3.0	7.0	5.0	2.0	0.0	6.0	1.0	
	% change	0.2%	0.2%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Menlo Park	2015	7,829.0	7,811.0	7,499.0	7,811.0	514.0	618.0	339.0	768.0	77.0	193.0	20.0	159.0	2.0	
	2014	7,816.0	7,800.0	7,500.0	7,800.0	514.0	620.0	309.0	792.0	80.0	183.0	17.0	159.0	3.0	
	% change	0.2%	0.1%	0.0%	0.1%	0.0%	0.0%	9.7%	-3.0%	-3.8%	5.5%	17.6%	0.0%	0.0%	
Redwood City	2015	17,316.0	17,294.0	16,455.0	17,294.0	982.0	1,016.0	669.0	1,202.0	90.0	147.0	36.0	131.0	8.0	
	2014	17,248.0	17,223.0	16,440.0	17,223.0	969.0	1,039.0	659.0	1,209.0	80.0	139.0	32.0	129.0	5.0	
	% change	0.4%	0.4%	0.1%	0.4%	1.3%	0.0%	1.5%	-0.6%	12.5%	5.8%	12.5%	1.6%	0.0%	
San Carlos	2015	8,608.0	8,596.0	8,474.0	8,596.0	527.0	637.0	385.0	789.0	48.0	72.0	11.0	55.0	6.0	
	2014	8,595.0	8,585.0	8,463.0	8,585.0	533.0	609.0	372.0	787.0	36.0	69.0	13.0	55.0	5.0	
	% change	0.2%	0.1%	0.1%	0.1%	-1.1%	0.0%	3.5%	0.3%	33.3%	4.3%	-15.4%	0.0%	0.0%	
San Mateo	2015	20,120.0	20,064.0	19,434.0	20,064.0	866.0	1,732.0	544.0	1,930.0	63.0	186.0	57.0	78.0	6.0	
	2014	20,082.0	20,034.0	19,449.0	20,034.0	870.0	1,754.0	498.0	1,968.0	51.0	145.0	55.0	77.0	2.0	
	% change	0.2%	0.1%	-0.1%	0.1%	-0.5%	-1.3%	9.2%	-1.9%	23.5%	28.3%	3.6%	1.3%	0.0%	
North Fair Oaks	2015	2,626.0	2,622.0	2,612.0	2,622.0	243.0	210.0	151.0	277.0	18.0	15.0	0.0	16.0	1.0	
	2014	2,632.0	2,628.0	2,619.0	2,628.0	247.0	202.0	146.0	278.0	15.0	14.0	0.0	17.0	0.0	
	% change	-0.2%	-0.2%	-0.3%	-0.2%	-1.6%	0.0%	3.4%	-0.4%	20.0%	7.1%	0.0%	-5.9%	0.0%	
WBSD	2015	2,208.0	2,207.0	2,194.0	2,207.0	21.0	11.0	20.0	16.0	5.0	4.0	0.0	1.0	2.0	
	2014	2,217.0	2,215.0	2,202.0	2,215.0	21.0	11.0	19.0	17.0	5.0	2.0	0.0	2.0	1.0	
	% change	-0.4%	-0.4%	-0.4%	-0.4%	0.0%	0.0%	5.3%	-5.9%	0.0%	100.0%	0.0%	-50.0%	0.0%	
Uninc. County	2015	5,041.0	5,032.0	5,018.0	5,032.0	54.0	135.0	53.0	139.0	8.0	15.0	0.0	2.0	1.0	
	2014	5,030.0	5,019.0	5,004.0	5,019.0	54.0	138.0	53.0	145.0	7.0	12.0	0.0	2.0	5.0	
	% change	0.2%	0.3%	0.3%	0.3%	0.0%	0.0%	0.0%	-4.1%	14.3%	25.0%	0.0%	0.0%	0.0%	
TOTAL	2015	93,999.0	93,730.0	90,347.0	93,730.0	4,204.0	5,988.0	2,895.0	7,061.0	430.0	954.0	180.0	620.0	42.0	
	2014	93,874.0	93,698.0	90,221.0	93,698.0	4,192.0	6,055.0	2,727.0	7,134.0	384.0	850.0	166.0	621.0	32.0	
	% change	0.1%	0.0%	0.1%	0.0%	0.3%	-1.1%	6.2%	-1.0%	12.0%	12.2%	8.4%	-0.2%	31.3%	

1. For rate year 2015: The data was generated using a query run across all active accounts in the RSMC AS400 data base. The data was run on May 9, 2014.
 2. For rate year 2014: The data was generated using a query run across all active accounts in the RSMC AS400 data base. The data was run on May 10, 2013.

Cliff Feldman

From: Mario Puccinelli <MPuccinelli@recology.com>
Sent: Tuesday, July 15, 2014 11:42 AM
To: Cliff Feldman
Subject: RE: Questions/Comments on Compensation Application
Attachments: FW: SBWMA Questions and Comments to Recology 2015 Compensation Application

Laura pointed out a discrepancy on some stats that look as though may have been inverted on one of our tables on page 29 (attached). We will confirm and change the table once we delve into the data.

That is the only inquiry.

From: Cliff Feldman [<mailto:cfeldman@rethinkwaste.org>]
Sent: Tuesday, July 15, 2014 10:58 AM
To: Mario Puccinelli
Subject: Questions/Comments on Compensation Application

Hi Mario,

I understand the County submitted questions on Recology's Compensation Application, but I'm not aware that any other Member Agencies did. Please confirm if there are others and if so, please forward these questions/comments.

Thanks,
Cliff

Cliff Feldman, Recycling Programs Manager
Phone: 650.802.3502 Fax: 650.802.3501
610 Elm Street, Suite 202, San Carlos, CA 94070



APPENDIX D

MEMBER AGENCY VARIANCE ANALYSIS OF TOTAL COLLECTION COST AND RATE IMPACT

SBWMA FINAL REPORT REVIEWING THE 2015 RECOLOGY COMPENSATION APPLICATION

September 18, 2014

	SBWMA TOTAL				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$98,758,368			
Projected Collection Revenue (After Rate Increase)	\$98,750,452				
2014 Base Revenue Surplus / <Shortfall>			\$1,135,259		-1.1%
Total Contractor's Compensation					
Base Compensation	\$57,545,191	\$57,905,546	\$360,355	0.6%	0.4%
Agency Specific Contract Changes	(\$431,332)	(\$435,254)	(\$3,922)	0.9%	0.0%
Incentives / Disincentives	\$472,171	\$253,210	-\$218,961	-46.4%	-0.2%
Total Contractor's Compensation	\$57,586,030	\$57,723,503	\$137,473	0.2%	0.1%
Other Pass-Through Costs					
Disposal & Processing Fees	\$25,923,251	\$25,918,674	(\$4,577)	0.0%	0.0%
Agency Franchise & Other Fees	\$14,113,827	\$14,131,238	\$17,410	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$40,037,079	\$40,049,912	\$12,833	0.0%	0.0%
TOTAL REVENUE REQUIREMENT	\$97,623,108	\$97,773,415	\$150,306	0.2%	0.2%
2014 Estimated Surplus / <Shortfall>	\$1,127,343				
2015 Estimated Surplus / <Shortfall>		\$984,954			
Required Revenue Adjustment		-1.0%			-1.0%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

SBWMA

	Atherton				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,124,450			
Projected Collection Revenue (After Rate Increase)	\$3,124,829				
2014 Base Revenue Surplus / <Shortfall>			\$378,283		-12.1%
Total Contractor's Compensation					
Base Compensation	\$1,493,330	\$1,458,679	(\$34,651)	-2.3%	-1.1%
Incentives / Disincentives	\$6,864	\$2,395	(\$4,468)	-65.1%	-0.1%
Total Contractor's Compensation	\$1,500,193	\$1,461,074	(\$39,119)	-2.6%	-1.3%
Other Pass-Through Costs					
Disposal & Processing Fees	\$925,979	\$909,848	(\$16,130)	-1.7%	-0.5%
Agency Franchise & Other Fees	\$319,995	\$319,995	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$1,245,974	\$1,229,844	(\$16,130)	-1.3%	-0.5%
TOTAL REVENUE REQUIREMENT	\$2,746,167	\$2,690,918	(\$55,249)	-2.0%	-1.8%
2014 Estimated Surplus / <Shortfall>	\$378,661				
2015 Estimated Surplus / <Shortfall>		\$433,532			
Required Revenue Adjustment			-13.9%		-13.9%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

Atherton

	Belmont				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$7,077,416			
Projected Collection Revenue (After Rate Increase)	\$7,078,774				
2014 Base Revenue Surplus / <Shortfall>			\$150,018		-2.1%
Total Contractor's Compensation					
Base Compensation	\$3,641,345	\$3,609,698	(\$31,647)	-0.9%	-0.4%
Incentives / Disincentives	\$20,625	\$11,280	(\$9,345)	-45.3%	-0.1%
Total Contractor's Compensation	\$3,661,970	\$3,620,978	(\$40,992)	-1.1%	-0.6%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,362,408	\$1,358,146	(\$4,261)	-0.3%	-0.1%
Agency Franchise & Other Fees	\$1,903,020	\$1,904,142	\$1,122	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$3,265,428	\$3,262,288	(\$3,139)	-0.1%	0.0%
TOTAL REVENUE REQUIREMENT	\$6,927,397	\$6,883,266	(\$44,131)	-0.6%	-0.6%
2014 Estimated Surplus / <Shortfall>	\$151,377				
2015 Estimated Surplus / <Shortfall>		\$194,149			
Required Revenue Adjustment			-2.7%		-2.7%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

Belmont

	Burlingame				
	2015 Variance				
	<u>2014 Estimated</u>	<u>2015 Estimated</u>	<u>2015 vs 2014 Change</u>	<u>2015 vs 2014 %</u>	<u>% Rate Impact</u>
Estimated Revenue (Before Rate Increase)		\$10,629,807			
Projected Collection Revenue (After Rate Increase)	\$10,631,694				
2014 Base Revenue Surplus / <Shortfall>			\$52,587		-0.5%
Total Contractor's Compensation					
Base Compensation	\$5,642,840	\$5,695,334	\$52,494	0.9%	0.5%
Incentives / Disincentives	\$59,783	\$33,983	(\$25,800)	-43.2%	-0.2%
Total Contractor's Compensation	\$5,702,623	\$5,729,318	\$26,694	0.5%	0.3%
Other Pass-Through Costs					
Disposal & Processing Fees	\$2,922,109	\$2,944,680	\$22,571	0.8%	0.2%
Agency Franchise & Other Fees	\$1,952,487	\$1,953,515	\$1,028	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$4,874,596	\$4,898,195	\$23,599	0.5%	0.2%
TOTAL REVENUE REQUIREMENT	\$10,577,220	\$10,627,512	\$50,293	0.5%	0.5%
2014 Estimated Surplus / <Shortfall>	\$54,475				
2015 Estimated Surplus / <Shortfall>		\$2,294			
Required Revenue Adjustment		0.0%			0.0%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

Burlingame

	E Palo Alto				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$4,650,501			
Projected Collection Revenue (After Rate Increase)	\$4,616,883				
2014 Base Revenue Surplus / <Shortfall>			(\$42,491)		0.9%
Total Contractor's Compensation					
Base Compensation	\$2,352,562	\$2,394,526	\$41,964	1.8%	0.9%
Incentives / Disincentives	\$29,006	\$16,423	(\$12,583)	-43.4%	-0.3%
Total Contractor's Compensation	\$2,381,568	\$2,410,949	\$29,381	1.2%	0.6%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,513,500	\$1,527,668	\$14,169	0.9%	0.3%
Agency Franchise & Other Fees	\$797,926	\$798,770	\$845	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$2,311,425	\$2,326,439	\$15,014	0.6%	0.3%
TOTAL REVENUE REQUIREMENT	\$4,692,993	\$4,737,388	\$44,395	0.9%	1.0%
2014 Estimated Surplus / <Shortfall>	(\$76,110)				
2015 Estimated Surplus / <Shortfall>		(\$86,886)			
Required Revenue Adjustment		1.9%			1.9%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

East Palo Alto

	Foster City				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$5,034,247			
Projected Collection Revenue (After Rate Increase)	\$5,034,695				
2014 Base Revenue Surplus / <Shortfall>			(\$452,468)		9.0%
Total Contractor's Compensation					
Base Compensation	\$3,610,222	\$3,451,025	(\$159,196)	-4.4%	-3.2%
Incentives / Disincentives	\$31,728	\$15,327	(\$16,401)	-51.7%	-0.3%
Total Contractor's Compensation	\$3,641,950	\$3,466,353	(\$175,597)	-4.8%	-3.5%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,467,288	\$1,455,665	(\$11,623)	-0.8%	-0.2%
Agency Franchise & Other Fees	\$377,477	\$376,130	(\$1,348)	-0.4%	0.0%
Subtotal Other Pass-Through Costs	\$1,844,765	\$1,831,795	(\$12,971)	-0.7%	-0.3%
TOTAL REVENUE REQUIREMENT	\$5,486,715	\$5,298,147	(\$188,568)	-3.4%	-3.7%
2014 Estimated Surplus / <Shortfall>	(\$452,020)				
2015 Estimated Surplus / <Shortfall>		(\$263,901)			
Required Revenue Adjustment		5.2%			5.2%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

Foster City

	Hillsborough				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,194,264			
Projected Collection Revenue (After Rate Increase)	\$3,194,404				
2014 Base Revenue Surplus / <Shortfall>			\$224,825		-7.0%
Total Contractor's Compensation					
Base Compensation	\$2,403,273	\$2,418,093	\$14,820	0.6%	0.5%
Agency Specific Contract Changes	(\$448,948)	(\$453,384)	(\$4,436)	1.0%	-0.1%
Incentives / Disincentives	\$8,468	\$2,878	(\$5,590)	-66.0%	-0.2%
Total Contractor's Compensation	\$1,962,793	\$1,967,587	\$4,794	0.2%	0.2%
Other Pass-Through Costs					
Disposal & Processing Fees	\$698,055	\$700,156	\$2,100	0.3%	0.1%
Agency Franchise & Other Fees	\$308,590	\$309,029	\$439	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$1,006,645	\$1,009,184	\$2,539	0.3%	0.1%
TOTAL REVENUE REQUIREMENT	\$2,969,438	\$2,976,771	\$7,333	0.2%	0.2%
2014 Estimated Surplus / <Shortfall>	\$224,966				
2015 Estimated Surplus / <Shortfall>		\$217,493			
Required Revenue Adjustment			-6.8%		-6.8%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

Hillsborough

	Menlo Park				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$10,188,615			
Projected Collection Revenue (After Rate Increase)	\$10,191,074				
2014 Base Revenue Surplus / <Shortfall>			(\$10,040)		0.1%
Total Contractor's Compensation					
Base Compensation	\$5,757,025	\$5,790,553	\$33,528	0.6%	0.3%
Agency Specific Contract Changes	\$23,919	\$24,201	\$282	1.2%	0.0%
Incentives / Disincentives	\$46,060	\$23,827	(\$22,233)	-48.3%	-0.2%
Total Contractor's Compensation	\$5,827,004	\$5,838,582	\$11,578	0.2%	0.1%
Other Pass-Through Costs					
Disposal & Processing Fees	\$2,678,109	\$2,658,278	(\$19,831)	-0.7%	-0.2%
Agency Franchise & Other Fees	\$1,693,542	\$1,694,860	\$1,318	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$4,371,651	\$4,353,138	(\$18,513)	-0.4%	-0.2%
TOTAL REVENUE REQUIREMENT	\$10,198,655	\$10,191,719	(\$6,936)	-0.1%	-0.1%
2014 Estimated Surplus / <Shortfall>	(\$7,581)				
2015 Estimated Surplus / <Shortfall>		(\$3,105)			
Required Revenue Adjustment		0.0%			0.0%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

Menlo Park

	Menlo Park				
	2015 Variance				
	<u>2014 Estimated</u>	<u>2015 Estimated</u>	<u>2015 vs 2014 Change</u>	<u>2015 vs 2014 %</u>	<u>% Rate Impact</u>

Menlo Park

	North Fair Oaks				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$2,655,892			
Projected Collection Revenue (After Rate Increase)	\$2,651,071				
2014 Base Revenue Surplus / <Shortfall>			\$45,815		-1.7%
Total Contractor's Compensation					
Base Compensation	\$1,684,143	\$1,763,066	\$78,922	4.7%	3.0%
Incentives / Disincentives	\$12,932	\$7,592	(\$5,340)	-41.3%	-0.2%
Total Contractor's Compensation	\$1,697,075	\$1,770,658	\$73,583	4.3%	2.8%
Other Pass-Through Costs					
Disposal & Processing Fees	\$772,135	\$777,105	\$4,970	0.6%	0.2%
Agency Franchise & Other Fees	\$140,866	\$141,455	\$589	0.4%	0.0%
Subtotal Other Pass-Through Costs	\$913,002	\$918,560	\$5,559	0.6%	0.2%
TOTAL REVENUE REQUIREMENT	\$2,610,077	\$2,689,218	\$79,141	3.0%	3.0%
2014 Estimated Surplus / <Shortfall>	\$40,994				
2015 Estimated Surplus / <Shortfall>		(\$33,326)			
Required Revenue Adjustment		1.3%			1.3%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.					

North Fair Oaks

		Redwood City				
		2015 Variance				
		2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$18,010,818			
Projected Collection Revenue (After Rate Increase)		\$18,011,913				
2014 Base Revenue Surplus / <Shortfall>				\$277,798		-1.5%
Total Contractor's Compensation						
Base Compensation		\$10,163,353	\$10,507,068	\$343,715	3.4%	1.9%
Incentives / Disincentives		\$96,397	\$54,105	(\$42,292)	-43.9%	-0.2%
Total Contractor's Compensation		\$10,259,750	\$10,561,173	\$301,423	2.9%	1.7%
Other Pass-Through Costs						
Disposal & Processing Fees		\$5,007,167	\$5,006,359	(\$808)	0.0%	0.0%
Agency Franchise & Other Fees		\$2,466,104	\$2,466,104	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs		\$7,473,270	\$7,472,462	(\$808)	0.0%	0.0%
TOTAL REVENUE REQUIREMENT		\$17,733,020	\$18,033,635	\$300,615	1.7%	1.7%
2014 Estimated Surplus / <Shortfall>		\$278,893				
2015 Estimated Surplus / <Shortfall>			(\$22,817)			
Required Revenue Adjustment			0.1%			0.1%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.						

		San Carlos				
		2015 Variance				
		2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$8,094,326			
Projected Collection Revenue (After Rate Increase)		\$8,095,913				
2014 Base Revenue Surplus / <Shortfall>				\$77,845		-1.0%
Total Contractor's Compensation						
Base Compensation		\$5,176,752	\$5,078,262	(\$98,490)	-1.9%	-1.2%
Agency Specific Contract Changes		(\$6,303)	(\$6,071)	\$232	-3.7%	0.0%
Incentives / Disincentives		\$36,398	\$18,063	(\$18,335)	-50.4%	-0.2%
Total Contractor's Compensation		\$5,206,847	\$5,090,254	(\$116,593)	-2.2%	-1.4%
Other Pass-Through Costs						
Disposal & Processing Fees		\$1,870,192	\$1,853,551	(\$16,641)	-0.9%	-0.2%
Agency Franchise & Other Fees		\$939,442	\$942,799	\$3,358	0.4%	0.0%
Subtotal Other Pass-Through Costs		\$2,809,634	\$2,796,350	(\$13,284)	-0.5%	-0.2%
TOTAL REVENUE REQUIREMENT		\$8,016,481	\$7,886,604	(\$129,877)	-1.6%	-1.6%
2014 Estimated Surplus / <Shortfall>		\$79,432				
2015 Estimated Surplus / <Shortfall>			\$207,721			
Required Revenue Adjustment				-2.6%		-2.6%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.						

San Carlos

		San Mateo				
		2015 Variance				
		2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$21,408,361			
Projected Collection Revenue (After Rate Increase)		\$21,414,620				
2014 Base Revenue Surplus / <Shortfall>				\$350,772		-1.6%
Total Contractor's Compensation						
Base Compensation		\$12,457,969	\$12,602,268	\$144,299	1.2%	0.7%
Incentives / Disincentives		\$109,717	\$60,521	(\$49,196)	-44.8%	-0.2%
Total Contractor's Compensation		\$12,567,686	\$12,662,789	\$95,103	0.8%	0.4%
Other Pass-Through Costs						
Disposal & Processing Fees		\$5,550,913	\$5,570,972	\$20,059	0.4%	0.1%
Agency Franchise & Other Fees		\$2,938,991	\$2,948,826	\$9,835	0.3%	0.0%
Subtotal Other Pass-Through Costs		\$8,489,904	\$8,519,798	\$29,894	0.4%	0.1%
TOTAL REVENUE REQUIREMENT		\$21,057,590	\$21,182,587	\$124,997	0.6%	0.6%
2014 Estimated Surplus / <Shortfall>		\$357,031				
2015 Estimated Surplus / <Shortfall>			\$225,775			
Required Revenue Adjustment			-1.1%			-1.1%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.						

San Mateo

	Unincorporated County				
	2015 Variance				
	2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,187,818			
Projected Collection Revenue (After Rate Increase)	\$3,202,424				
2014 Base Revenue Surplus / <Shortfall>			\$46,693		-1.5%
Total Contractor's Compensation					
Base Compensation	\$2,177,995	\$2,142,023	(\$35,971)	-1.7%	-1.1%
Incentives / Disincentives	\$3,977	\$5,239	\$1,262	31.7%	0.0%
Total Contractor's Compensation	\$2,181,972	\$2,147,262	(\$34,710)	-1.6%	-1.1%
Other Pass-Through Costs					
Disposal & Processing Fees	\$780,141	\$783,940	\$3,799	0.5%	0.1%
Agency Franchise & Other Fees	\$179,013	\$178,976	(\$37)	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$959,154	\$962,915	\$3,762	0.4%	0.1%
TOTAL REVENUE REQUIREMENT	\$3,141,125	\$3,110,177	(\$30,948)	-1.0%	-1.0%
2014 Estimated Surplus / <Shortfall>	\$61,299				
2015 Estimated Surplus / <Shortfall>		\$77,641			
Required Revenue Adjustment			-2.4%		-2.4%

All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.

Unincorp

		West Bay				
		2015 Variance				
		2014 Estimated	2015 Estimated	2015 vs 2014 Change	2015 vs 2014 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$1,501,854			
Projected Collection Revenue (After Rate Increase)		\$1,502,156				
2014 Base Revenue Surplus / <Shortfall>				\$35,624		-2.4%
Total Contractor's Compensation						
Base Compensation		\$984,382	\$994,950	\$10,568	1.1%	0.7%
Incentives / Disincentives		\$10,217	\$1,576	(\$8,641)	-84.6%	-0.6%
Total Contractor's Compensation		\$994,599	\$996,526	\$1,927	0.2%	0.1%
Other Pass-Through Costs						
Disposal & Processing Fees		\$375,256	\$372,306	(\$2,950)	-0.8%	-0.2%
Agency Franchise & Other Fees		\$96,375	\$96,637	\$262	0.3%	0.0%
Subtotal Other Pass-Through Costs		\$471,631	\$468,944	(\$2,687)	-0.6%	-0.2%
TOTAL REVENUE REQUIREMENT		\$1,466,230	\$1,465,470	(\$760)	-0.1%	-0.1%
2014 Estimated Surplus / <Shortfall>		\$35,926				
2015 Estimated Surplus / <Shortfall>			\$36,384			
Required Revenue Adjustment			-2.4%			-2.4%
All numbers above are current estimates except 2014 Contractor's (Recology) Compensation which is final and 2015 Contractor's Compensation which is subject to Board Approval.						

West Bay